The Senior Living Industry 1986

Laventhol & Horwath
Health Care and Real Estate Consulting Services

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The Senior Living Industry—1986*

6th ANNUAL REPORT ON THE SENIOR LIVING INDUSTRY IN THE UNITED STATES

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*Formerly titled *Lifecare Retirement Center Industry* and *Lifecare Industry*

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Introduction

by James F. Sherman and Susan Brecht

As the elderly population increases, so does its need for housing and services. Independent living accommodations and diversified services are in great demand, and the senior living industry is becoming more and more imaginative and cost-sensitive in order to meet those demands. For many years now, Laventhol & Horwath has recognized the need to capture and record the many aspects of the industry and has used market research techniques as a means to do so. The information can be used as a comprehensive guide in developing strategies for facility or service improvement, market penetration or in designing a new facility.

The Senior Living Industry 1986 is the sixth survey Laventhol & Horwath has conducted on the senior living industry. In previous years, this study has been titled *Lifecare Retirement Center Industry* and *Lifecare Industry*. The change to this year's title reflects the growth and diversification that has occurred in providing housing and services to the elderly. This publication's exhibits also reflect this diversity by separating the presentation of data according to the nature and operational characteristics of the facilities.

As in previous surveys, a cross section of senior living facilities throughout the country was examined. Survey questionnaires were distributed, and telephone interviews were conducted as a means to obtain additional data and information. The respondents were requested to provide data and information on their operations and financial characteristics. Laventhol & Horwath statistically tabulated the results of the survey in order to provide a current assessment of the senior living industry, while offering some insight into the industry's future directions.

The survey begins with a national perspective on the forces that are shaping the senior living industry. "Comments From Around the Country" offers some perceptions and insights into the current senior living industry climate in various regions of the United States. An environmental assessment is made of the trends and shifts in the senior living industry for the short and long term. Although this information reflects subjective conclusions, it is based on information from informed and experienced sources.

A profile is provided on the 169 senior living facilities from around the country that participated in this survey. The participating facilities could be classified by two distinctions: rental facility or entrance fee facility. For the first time, the survey data are categorized and presented according to these distinctions. The information and data are further classified within each category by the distinctions that have been used in past surveys. That is, by classification of principally retirement centers and retirement centers oriented toward nursing care. Finally and most importantly, the statistical tabulations with their accompanying narratives are presented as a representation of the current operational and financial characteristics of the senior living industry.

This report embraces many aspects of the senior living industry. It presents substantial information and data on the operations and finances in various types of facilities. As a recognized leader in serving congregate care, lifecare, continuing care retirement, nursing home and long-term care providers, Laventhol & Horwath is pleased to share our assessment of the rapidly expanding senior living industry.

Acknowledgements

Laventhol & Horwath wishes to express its gratitude to those survey participants who took the time and effort to respond to this survey.

We would also like to acknowledge the efforts of several departments within the firm's Marketing Group. The Research Division is acknowledged for its commitment of time and effort in developing the statistical tables from the survey data received, and the Marketing and Publications Departments for their efforts in preparing this report for publication.

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A national perspective

by James F. Sherman

With the advent of the "graying of America," the prospective payment system, tax reform and other critical issues that are directly affecting health care services, the senior living industry—currently estimated to include a total of approximately 700 facilities—is faced with continuing new developments, opportunities and challenges.

Those of us with an interest in the senior living industry are formulating projections concerning the future. This industry is changing in its structure and type of housing options available to meet seniors' desires. Owners and developers are becoming resourceful, creative and innovative.

This presentation encompasses the national perspective of the industry to lessen the pressure of uncertainty and increase the chances for success for many senior housing operators, entrepreneurs and enterprises considering entrance to the senior living market. It provides insight into the current market as well as a forecast of the future direction of this industry.

The current environment

This is one of the most exciting times the American senior living industry has ever experienced. The focus of the industry is being shared by for-profit organizations and the not-for-profit ones, with several projects being developed utilizing joint venture agreements.

Financing in the senior living industry is significantly complex. Federal and state regulations pose a real challenge at times to financing a senior housing project. Approximately 17 states regulate retirement centers, and certificate of need regulations on a state by state basis affect some projects. Also, the imputed interest rule will affect most projects that require an entrance fee.

Additionally, many states have regulations governing entrance fee projects. For example, certain states require a presale of 50 percent of the residential units before funds can be expended for construction. Certain rental facilities, if financed with tax-exempt bonds, must have 20 to 30 percent of the residential units available for low- to moderate-income residents.

Many projects are being targeted for the affluent elderly, as well as for the middle market sector. On either front, competition, management and marketing are challenges that must be fully evaluated and addressed in order to be successful.

There are a substantial number of developers—new to the field of seniors housing—that are entering this industry. Market rate rental projects are becoming a major force primarily due to the entry of real estate developers.

Currently, strong interest is being shown for assisted living projects as the numbers of *older* elderly increase, since individuals over 80 years of age need a more supportive living environment and have greater medical requirements. Many projects, in addition to developing assisted living facilities, are also adding skilled nursing facilities.

Hospitals are continuing to show interest in developing seniors living projects in an effort to cope with stringent hospital regulations and maintain a high degree of financial viability. Many are testing this market, which for many is an extension of their goals, objectives and experience. Many hospitals have underutilized land that can be converted into income producing assets. Moreover, such a project diversifies their revenue base and captures residents who may require medical services in the future. This activity is occurring in both not-for-profit and proprietary hospital environments.

Economic assessment

In this country, more than $30 billion is spent annually on elderly care. The senior living industry accounts for at least 10 percent of the market, and as the elderly continue to increase in number and become more affluent, the size of this market will continue to expand and demand more resources.

More creative financing is being introduced by developers today. Capital financing is shifting from tax-exempt bonds to various types of conventional financing. The U.S. Department of Housing and Urban Development (HUD) is now involved in financing senior housing projects utilizing the 221(d)(4) and 232 co-insurance programs.

The imputed interest rules generally treat certain transactions, including continuing care refundable entrance fees, as "below market rate" loans between the resident and the project, thus requiring the imputing of interest income to the resident without the receipt of cash. An exemption is provided from the imputed interest rules up to $90,000 for certain types of continuing care retirement communities; however, the criteria for qualifying for the exemption and the hazards to organizations that fail to qualify are currently creating many difficulties and much confusion. The interpretations of the imputed interest rules may affect the financial viability of high-end entrance fee projects and may pave the way for more market rate rental projects in future years.

The financing trends are toward conventional financing and syndications for equity such as real estate investment trusts (REITs) and master limited partnerships (MLPs). A high percentage of senior housing projects are being financed by one of these methods. FHA financing is also being utilized, and some developers are securing conventional loans. Taxable bonds are beginning to be considered seriously.

For some projects, financing has been difficult to obtain. Many of the potential lenders have not seemed to understand the opportunities in this industry. More creative financing is expected in the future as additional commercial lenders, insurance companies, pension funds and others evaluate the industry and understand its potential.

New market forces

The changing demographics of the elderly is a major force in the survival and growth of the senior housing industry. In 1980, 2.2 million elderly Americans were 85 years of age and over. That figure is expected to more than double by the year 2000. And, as members of the "baby boom" generation enter their elderly years, that figure is expected to double again.

The increasing population of seniors—along with their increasing financial position—will provide many opportunities for development of seniors housing projects, especially once the needs and desires of the elderly are understood. As mentioned earlier, approximately 700 seniors housing projects exist today while there are at least a couple hundred in various stages of planning and development.

Seniors housing projects, if developed properly, will further become the preferred alternative for seniors to lead an active independent life style. Shrinking family size and an increase in the number of working women (who are unable to care for elderly parents) have also contributed to this growth.

There will probably be an expanding number of housing options being offered in the marketplace. One option may arise as sponsors develop and operate equity facilities including condominiums or cooperatives offering a comprehensive array of services. In certain regions of the country, there is a growing interest and demand by seniors for this type of project. There are some interesting and unique tax and legal issues that must be addressed when developing a condominium or cooperative facility, but assuming that these issues can be resolved, there may be a large untapped potential.

For those seniors who desire a full-service project, the advent of long-term care insurance may be the answer to successful development of many of the proposed rental and entrance fee projects. Long-term care insurance has been slow to enter the marketplace since many insurers have feared that only the chronically ill would purchase the insurance. Many senior citizens falsely perceive that the Medicare program covers all of their potential health care needs and therefore additional insurance is not required. This false impression accounts for why some seniors quickly reach the poverty level after long stays in a nursing home. Medicare pays for about 2 percent of the elderly long-term care health bill, Medicaid pays about 54 percent, private insurance pays about 1 percent and the remaining approximately 43 percent is paid by the individual himself, his family or friends.

A well-planned marketing strategy that includes consumer education will add to the success of long-term care insurance. Many elderly are uninformed about their long-term care health insurance coverage, particularly about the onerous eligibility requirements of the Medicaid program. Based on our research, we have determined that approximately 15 to 20 companies now offer long-term care health insurance.

Estimating potential demand

L&H has begun to develop a projection of the number of seniors housing facilities that may be desired during the 15-year period 1986 through the year 2001. To our knowledge, though, ultimate demand for seniors housing, for each of the options, has never been systematically studied on a national basis. We have begun to analyze this future.

If one considers the following assumptions as reasonable, many conclusions can be reached regarding the potential of the seniors housing market.

- Reliable counts of the number and type of facilities are not available, and the industry has not yet developed a body of widely accepted demand generators for predicting demand on a national scale. As mentioned earlier, there are approximately 700 existing projects broken down between congregate rental facilities, continuing care facilities and life-care facilities.
- There are indicators of potential demand. There are a number of cities in the country in which the number of people living in seniors housing projects represents between 12 and 20 percent of the age and income qualified elderly households. Philadelphia and Chicago are two that fit in this category.
- Assuming that many other cities will eventually attain similar market share rates while certain cities will attain higher rates, a theoretical demand can be determined. For purposes of this discussion, we have assumed that the potential demand could increase slowly starting at 12 percent in 1987 and attain 14.5 percent by 1996. A substantial difference currently exists between this theoretical demand and the actual number of projects operating. For this discussion actual demand is assumed to increase each year, partially narrowing the gap between theoretical demand and the supply during the next 15 years. But it is not assumed that the theoretical demand would equal the actual number of facilities.

This discussion assumes that facilities have an average of 175 units and 200 residents per facility.

We have used the following demographic assumptions in creating the accompanying table. The number of seniors aged 65 and over in the United States in 1986 was approximately 29,159,000 and will increase to 39,117,000 in 2001. The number of persons per elderly household is 1.59 and probably will remain at this level through the year 2001. Approximately 30 percent of the total number of elderly households have income of $20,000 or more in 1986 dollars—the income eligibility level we assumed as a minimum.

SENIORS HOUSING INDUSTRY
Fifteen Year Forecast

	1986	1990	1995	2001
Estimated number of elderly (millions) (Growth rate per year)	29.159	31.535	34.780	39.117
Ratio of households to people	1.59	1.59	1.59	1.59
Number of elderly households	18.367	19.864	21.908	24.640
Percentage of elderly households with incomes of $20,000 or more in 1986 dollars	31%	30%	30%	30%
Estimated number of elderly households with incomes of $20,000 or more in 1986 dollars	5.673	5.999	6.071	7.503
Estimated demand for seniors housing units in percentage of income eligible elderly households	12.00%	13.00%	14.25%	15.00%
Estimated number of facilities in operation beginning of year		1.351	2.580	3.589
Estimated number of new facilities constructed		207	203	189
Estimated number of facilities at end of year		1.558	2.583	3.770
Market penetration		4.55%	6.78%	8.81%

Diversification of products and services

Products and services will be developed to appeal to a wider socioeconomic strata, with marketing targeted to the middle- and lower-income elderly as well as upper-income persons.

Many developers are beginning to focus more and more on the needs of senior citizens to avoid experiencing major difficulties in establishing profitability. Developers need to develop projects in relationship to the market demands. Nursing care, personal care, spacious living units, security, good location, transportation, gracious amenities and value for the money are all integral components of a successful project. A key ingredient to a successful project is to provide a variety of service levels for the residents.

The service package for the residents is becoming highly flexible, and the services are being unbundled to provide a wider range of options for the resident to select. This approach will provide the residents with the best opportunity to select only those services that fit their personal needs and income level.

The traditional senior living product has been historically known as lifecare, in which a resident pays an entrance fee that fully amortizes in a few years. The resident is guaranteed health care for life in these facilities. However, the elderly have shown resistance to paying this type of nonrefundable endowment fee, and as the industry has begun to mature, new product options and payment plans have been developed. Partially refundable or fully refundable entrance fees have been introduced along with the unbundling of services. As more real estate developers have entered the industry, market rate rental projects have gained in popularity.

There have been a number of product development trends in the industry, which range from market rate rental apart-

ments to congregate care facilities (CCRCs); however, there has not been any product branding or establishment of a particular product as the "norm." Market rate rental apartments for seniors or adult congregate living facilities (ACLFs) usually provide residents with apartment units and a variety of services and amenities. Some ACLFs offer residents one meal per day, an on-site nurse and a full spectrum of planned activities. Some projects offer residents an apartment unit only, with few services. Assisted living facilities, which provide three meals per day and a level of individual care, have gained momentum as an alternative to placing an individual in a nursing home.

The level of services offered by a project usually sets the tone of dependence or independence. Also, the age group generally attracted to any particular facility is determined by the degree or level of service provided. To illustrate, a market rate rental apartment complex with limited services will often attract younger people than an assisted living facility, which provides a greater degree or level of services.

Future trends

The transition of the economic structure of the United States from a manufacturing and industrial economy to a service-oriented one may result in new demands from future residents, both in the types of facilities built and in the services offered.

Governmental influences are expected to continue to increase at all levels affecting both availability of financing and organization structure. Possibly, government will regulate how services can be performed as this industry grows and evolves.

The Health Care Financing Administration may well get approval for a Medicare prospective pricing system for skilled nursing facilities, similar to the DRG (Diagnostic Related Groups) program for hospitals. Such a program may then also be utilized for Medicaid reimbursement or payment for nursing home services.

The Tax Reform Act of 1986 will impact tax-exempt financing, advance refundings, investment and tax shelter limitations, capital formation and investment strategies, unrelated business income and employee compensation. The lending community also will play a major role in how the senior housing industry develops into the future.

The following trends characterize the future development of this industry.

- The senior housing project developments are expected to continue to provide the elderly with a wide diversity of life style options.
- Long-term care insurance products may provide an opportunity to unbundle the health care services in the senior housing projects.
- Advancements in medical, computer and communications technology are expected to provide the elderly with greater independence.
- Consolidation of the industry may develop due to market conditions, increased competition and the lack of available financing.
- The increasing sophistication, education and affluence of seniors is expected to have an impact on the provision of services and amenities.

Success within the seniors housing industry is expected to be achieved by those organizations that have a long-term commitment to its residents, a long-term commitment to the industry, solid financial strength, experienced personnel in all areas of operations and development, and an ability to market projects successfully within their marketplace.

The critical success factors in the seniors housing industry involve a combination of commitment and skills in both operating and developing a project. Credibility within the marketplace is critical to an organization's success. This requires that an organization recognize that apartments are not being developed just for older people, but for a special group of people with their own desires. This translates into an organization responding to market demands and needs. At Laventhol & Horwath, we believe that the senior living and retirement center industry continues to contain many opportunities for growth and success for the serious participants.

Comments from around the country: *A regional perspective*

SHORT-TERM ASSESSMENT OF THE SENIOR LIVING INDUSTRY

NORTHWEST

Activity in the retirement center industry in the Northwestern U.S. has been strong. Retirement centers are currently a popular land use. Interest in smaller developments with 100 to 150 units has intensified. Most projects are rentals—a format that is particularly being promoted by real estate developers. Alaska has a limited number of retirement center developments and assisted living facilities that are open only to people who are at least age 65 and have lived in Alaska for more than 25 years. Retirement center developments and assisted living facilities are adding skilled nursing care to their facilities to accommodate a greater degree of care. The Alaska facilities are full and have long waiting lists.

NORTHEAST

Real estate developers, hospitals and some nursing homes are showing interest in retirement center communities. Predominantly, the interest is in rental projects rather than those with endowment fees. This trend can be attributed to real estate players who are entering the market and the lenders they traditionally work with who understand rental housing. A variety of facilities and payment structures, including rentals and those with modified endowment fees, are being proposed. Many are not yet offering nursing home beds and are still calling themselves CCRCs. Even though in planned projects joint ventures are attracting much interest, few have actually materialized. More proprietary owners are becoming involved. Retirement centers are a secondary stop for the elderly. Usually, the first stop is an apartment or condominium in a warmer climate. We are finding more player-driven products rather than market-driven products.

GREAT PLAINS STATES

An unbundling of services to meet second tier market needs and the emergence developer-driven rather than market-driven facilities are the trends in the Great Plains. Interest in CCRCs and rental projects that cater to the middle- and upper-income markets has intensified. Also, hospitals, real estate developers and nursing homes are moving into the market. Endowment projects have not been particularly popular for new developments in Minnesota. In the Quad Cities of Davenport and Bettendorf in Iowa, and Rock Island and Moline in Illinois, the retirement center industry has focused, as it traditionally has, on the lifecare concept; most projects offer a wide range of care with nonrefundable endowments.

GREAT LAKES AREA

As greater emphasis is placed upon product design and competitive fee structures, developers are using consumer research to mold and refine the optimal mix of services, financial arrangements and amenities offered to potential project residents. To determine product design preferences, Laventhol & Horwath recently surveyed a cross section of the market area, i.e. elderly individuals. Based on a weighted average value of responses to surveys conducted by L&H, elderly individuals rated security, emergency health-related services, fully refundable entrance fees (if applicable) and dinner as the four most important services and amenities desired in a retirement housing facility. With the exception of the long-term care service component, actual experience in the Chicago market further indicates that the type of services and amenities offered is very similar among competitive retirement care community projects.

A larger and an increasing number of players are entering the market, particularly in the proprietary area. Increased regulation is expected. A higher percentage of rental projects is expected due to real estate developers. More product diversification is occurring. Rapid saturation is possible in major markets. More emphasis is being placed on developing projects in rural areas (in towns with populations under 50,000); developers look for a key ingredient such as a university or a strong religious base. Such developments are small (15 to 20 units) and offer services including one meal per day, housekeeping, maintenance, some activities and transportation. Chicago facilities, which were principally lifecare, now include a combination of refundable endowments and rentals. Rental projects that have a middle-market sense predominate in the Detroit, Cleveland and Cincinnati areas.

SOUTH CENTRAL

Activity is focused on market rate rental projects with no endowment or entry fees. Rentals outnumber endowments by four to one, exemplifying a move away from the "lifecare concept." Most rental projects have communal space, but are not directly related to a nursing home and have no medical care on site. Under the sponsorship of traditional nonprofit health care organizations, as well as nontraditional ones such as retired teachers associations and local labor unions, recent attempts have been made to develop more middle- to upper middle-income projects. The South Central area is experiencing a wide diversity of projects, with a trend toward a higher level of care (residential care units, assisted living units, catered living, etc.) and luxury projects. This shift in focus can be attributed partially to the philosophy of offering a "continuum" of care and partially to a perceived need of providing an alternative to nursing home care for those "frail elderly" who are not in need of medical care but are unable to care for themselves on a daily routine basis. Evident in the Denver market are co-ops and projects with refundable entry fees.

SOUTHWEST

Personal care and the continuum of care concept are the dominant trends. Entrance fee projects are in the planning stages, and large hospitals are showing interest in CCRCs with upscale units. Real estate developers, however, are promoting market rate rental assisted living facilities. Most existing facilities charge nonrefundable entrance fees and those that are being planned are looking at nonrefundable or 50 percent refundable fees. Most projects are upscale. Joint development partners (insurance companies) are being sought. Despite a strong interest in developing facilities, few projects are actually materializing because of difficulties in obtaining financing. More adaptive uses are being proposed for projects that could convert existing hotels and apartment complexes into elderly developments. More personal care projects are expected to be developed.

SOUTHEAST

Many different players are entering the market (nonprofit sponsors, for-profit multihousing developers, national chains and corporations and independent real estate developers)—with health care providers such as hospitals and nursing homes expressing a strong interest in personal care. Joint ventures between hospitals and real estate developers for rental projects will experience more activity. Projects are heavily weighted toward market rate rentals, with an estimated 80 percent of activity being rentals. There has been recent interest in rental co-ops and condominiums; however, Federal tax changes will affect rental co-op and condo developments. More personal care beds are being provided in facilities, and this is expected to continue. Recently, some projects in Atlanta are being tailored toward the middle-income market with phased construction rather than 300-unit upper-income high rises. Florida has a wide variety of projects for the elderly. Trends such as increased availability of unbundled services and higher refundable entrance fees appear to be favorably accepted by the marketplace. Older projects had endowments, but new ones are rentals with various levels of refundability. Some facilities offer two or three payment plans to choose from. Projects with 100 percent refundable fees are most popular among the elderly who desire to leave part of their estate to their children. There has been strong activity among out-of-state developers and organizations in acquiring existing retirement communities as a means of achieving a quick foothold in the Florida market.

LONG-TERM ASSESSMENT OF THE SENIOR LIVING INDUSTRY

NORTHWEST

Over time there will probably be a wider spectrum of projects offered to meet market needs. More segmentation will occur. Alaska expects that state funding cuts of programs will open up opportunities for private developers to enter the industry.

NORTHEAST

Projects will be developed to appeal to a wider socioeconomic strata, and development will continue at a fast pace. Facilities will have the capacity to accommodate the older elderly (age 80 and over) who require a greater degree of health care and a larger and more skilled labor force. Assisted living will increase as a free-standing product. More condominium projects are expected for those who prefer ownership. Also, the new tax legislation will shape the industry and projects offered. HUD 221(d)(4) financing will affect the rental project market.

GREAT PLAINS STATES

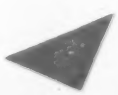
Increased market segmentation of projects will continue. Services will become market driven, and packages of services will be available. The increasing sophistication, education and affluence of the elderly is expected to impact the nature of services, amenities and facilities developed.

GREAT LAKES STATES

Smaller projects will be offered, and those targeted toward the middle-market segment will increase. As projects are developed for the middle-income segment of the market, there will be more evidence of cost effectiveness. Rural and suburban areas will attract more development attention, to allow residents to remain closer to home, family and friends. Successful projects will probably package a network of facilities together to achieve greater economies of scale. More joint ventures between nonprofit and proprietary sponsors are expected. Greater diversification of projects and the unbundling of health care services will occur. Free-standing assisted living facilities are expected to increase, and existing communities will attempt to expand and offer a true continuum of care.

SOUTH CENTRAL

The education of the public will be key to future success. Developers in the Denver metropolitan area will proceed cautiously, and some could drop out of the market all together. Two market segments that new projects are expected to target include the younger elderly and the older and more frail elderly who require a higher level of care. Assisted living will probably become a more prevalent component in the development of independent living units and nursing homes, while success in the future hinges upon the professional marketing and management of facilities.



SOUTHWEST

Facilities providing a continuum of care will continue to be developed. Financing is key! A decline in interest by developers is expected due to market conditions and the lack of available financing. The development of "board and care" facilities may occur in the future.

SOUTHEAST

In the future, nonprofit players will probably be more involved in joint ventures. Market rate rental projects are expected to be attractive. Some expansion of cooperative developments and assisted living projects is expected. Smaller projects will be built, and future units will be tailored to the middle-income market. More high-tech features will be incorporated into new facilities. Greater emphasis will be placed on environmental design features that compensate for changes associated with aging. Developments offering unbundled services, including those providing assisted living conveniences, will have strong market appeal. In the future, more insurance companies may underwrite long-term care insurance that would cover the costs of retirement centers.

KEY ISSUES FACING THE INDUSTRY

NORTHWEST

State certification of retirement housing is a major issue. Alaska's cutback of free assisted living care without regard to income or need could cause its consumers to change their expectations about care.

NORTHEAST

Expansion of the industry to provide facilities for a lower socioeconomic strata is a pressing issue. Financing and long-term care insurance must be addressed. Other issues include tax legislation and the availability of tax-free bonds, educating the public about the product, and the lack of competent and qualified staff to support the industry and marketing.

GREAT PLAINS STATES

Projects must be targeted at the middle-income segment of the population. Governmental influences, which are expected to continue and increase at all levels in such areas as availability of financing and organizational structure, will regulate how services can be performed as the industry grows and evolves. The lending community will play a major role in how the retirement center industry develops into the future. The Great Plains States must address issues such as service enrichment, price-value relationships and the availability of a wider range of payment plans. Also, smaller facilities (fewer units) are becoming more economical and more feasible.

GREAT LAKES STATES

Stricter Federal and State regulations (imputed interest and tax shelters with endowments) are a major concern to both providers and developers. Competition, knowledge of the market and marketing the project are serious issues that must be addressed to achieve success. Other areas of concern are joint venture intensity, development failures due to lack of understanding of the market, and the lack of available financing that will make projects more difficult to put together.

SOUTH CENTRAL

Lender's attitudes and lack of education about developments are key issues facing the industry. Underwriters will play a key role since they have experience with bond issues. Financing has become an important issue due to concern over future use of tax-exempt bonds and the high cost of financing them. The weak Denver metropolitan area resale home market also causes concern.

SOUTHWEST

The availability of long-term care insurance has become an important issue. Other concerns are the financing of facilities and problems with tax-exempt bonds that will result in developers pursuing conventional financing. California's lack of available sites and high priced land costs further add to development costs.

SOUTHEAST

The education of consumers, developers and the lending community is a necessity. Name recognition and a stable organization are also important. Tax law changes that may affect condominium development is an issue. In Florida, high land prices that increase the development cost of a project have caused great concern.

MODEST-INCOME FACILITIES, SERVICE, AMENITIES, FACILITIES AND RENTS

NORTHWEST

Rents range from $600 to $800 per month and include one meal per day and limited amenities. Newer projects typically do not have endowment fees; however, older projects do have endowments of approximately $20,000. Facilities give the appearance of standard apartment buildings and contain studio units and limited community use areas.

NORTHEAST

There are no modest-income facilities in the Northeastern U.S.

GREAT PLAINS STATES

Rents range from $500 to $700 per month. Facilities contain small units with Spartan furnishings and offer only basic services (e.g., a community dining room few amenities and activities).

GREAT LAKES STATES

Facilities have rents ranging from $800 to $1,000 per month with meals included. Endowment projects have entry fees of $30,000 to $50,000 with monthly fees of $400 to $550. One-bedroom units predominate, and studio units remain unpopular as most people prefer larger one- and two-bedroom units. Facilities have multi-purpose community space for socializing. Services include transportation, administration, one meal per day, maid service, maintenance and utilities. Amenities are similar to middle- and upper-income facilities, but with less ambiance (e.g., meals served buffet style).

SOUTH CENTRAL

Rents range from $650 to $800 per month and include all services, utilities, one meal per day and transportation. Smaller square footage in living areas, smaller community use areas and more efficiency units in facilities are characteristic of this segment. Older projects have a church affiliation and include mostly studio and one-bedroom units with limited amenities. Facilities have a Spartan and more institutional look with lower-end furniture, fixtures and equipment (FF&E).

SOUTHWEST

One-bedroom units rent for $800 maximum and have no entrance fees. Typically, facilities contain small rooms, a high proportion of studio units, few two-bedroom units and only a handful of one-bedroom units. Facilities have a social director, meal service and transportation. The major difference between these projects and higher-income facilities is the degree of ambiance and extras.

SOUTHEAST

In Atlanta, cluster or patio homes sell for $25,000 to $35,000 per unit, with association fees of $65 per month; few of these projects are available. Older endowment projects had entry fees of $25,000. Facilities have small community use areas, transportation on a scheduled basis, no frills service, no meals and few amenities.

MIDDLE-INCOME FACILITIES: SERVICES, AMENITIES, FACILITIES AND RENTS

NORTHWEST

Facilities have mostly one-bedroom and some studio units, with rents in the range of $1,000 to $1,200 per month with one meal per day included. Compared with modest income facilities, developments are located in more desirable neighborhoods and have better access to shopping centers, parks and other conveniences.

NORTHEAST

Projects with entrance fees ranging from $30,000 to $100,000 and monthly fees of $800 to $1,300 dominate the market. Most people prefer larger one- and two-bedroom units.

GREAT PLAINS STATES

Rents range from $800 to $1,000 per month and include basic amenities and services. A wider range of care, higher quality service and nicer furnishings differentiate these from modest-income facilities.

GREAT LAKES STATES

Facilities have rents of $900 to $1,500 per month with one meal per day included. Endowment projects have entry fees of $50,000 to $80,000. Studio units remain unpopular, with large one- and two-bedroom units capturing most of this market. The amenities are similar to those of modest-income facilities but are provided with more ambiance. These include meals served by waitresses, multipurpose community use space rather than separate use space and, in some facilities, a swimming pool.

SOUTH CENTRAL

Rents range from $800 to $1,300 per month and include one or two meals per day. There is more square footage in the community area; however, there are fewer amenities on a pay-as-use basis. Facilities consist mostly of one-bedroom units (650 square feet), few two-bedroom units (900 to 950 square feet) and few efficiencies. This market consists mainly of low-rise buildings with a suburban apartment look and nice, but not luxurious, community use areas.

SOUTHWEST

Straight rental projects have rents of $700 to $800 for a studio unit, about $1,100 for a one-bedroom unit and $1,300 for a two-bedroom unit. Some older CCRCs have entrance fees of $70,000 to $140,000 with monthly fees of approximately $1,100. One-bedroom units (500 to 600 square feet) predominate although a small proportion of studio units (300 to 400 square feet) and some two-bedroom units (600 to 800 square feet) can be found. A higher level of service, nicer FF&E and superior ambiance differentiate middle-income facilities from modest-income facilities; however, amenities are similar.

SOUTHEAST

Florida must be examined by comparing its two distinct markets, the Southeast and the Southwest. Rents are somewhat higher in Southeast Florida; however, units in Southwest Florida are 100 to 200 square feet smaller than those in Southeast Florida. One-bedroom units range from 600 to 750 square feet in the Southwest and 700 to 850 square feet in the Southeast. Two-bedroom units range from 850 to 1,000 square feet in the Southeast and 650 to 800 square feet in the Southwest. The key is good value for the dollar but not too much value. All amenities are included in the rents, and transportation is available on an as needed basis. Atlanta's monthly rents range from $1,200 to $1,700, and include meals. Older endowment projects in Atlanta have entry fees of $40,000 to $75,000 with monthly fees of $550 to $750. Facilities have an equal mix of one- and two-bedroom units.

UPPER-INCOME FACILITIES: SERVICES, AMENITIES, FACILITIES AND RENTS

NORTHWEST

Facilities have rents of approximately $1,600 and include one meal per day, and endowment projects have entry fees of $80,000 to $100,000 plus monthly fees of $500. One- and two-bedroom units predominate. Extensive well-maintained grounds, many common areas, a good location and extensive staffing are characteristic of this segment.

NORTHEAST

Projects in this segment can be described as very luxurious. Facilities offer services that are similar to middle-income projects, but have additional amenities provided in a more gracious fashion. Entrance fees range from $80,000 to $200,000 with monthly fees of $1,100 to $2,000.

GREAT PLAINS STATES

With rents of $1,000 and higher per month, the units are larger and have more community use areas than in the lesser income projects. Facilities offer a wider range of social amenities in a more cultured living setting, a full range of services and care, and extensive recreational activities.

GREAT LAKES STATES

Rents range from $1,200 to $2,000 per month, and endowment projects have entrance fees of $80,000 and up with monthly fees of $700 to $800. Larger units, better locations and more community use areas differentiate these from middle-income facilities. Waitresses may serve meals, and some of the facilities feature golf courses and swimming pools. These types of facilities are never located in rural areas.

SOUTH CENTRAL

Rents range from $1,100 to $2,000 and offer much larger square footage (i.e., 800 square feet in one-bedroom units and 1,000 square feet in two-bedroom units). Studio units can only be found in assisted living facilities. Community use areas are spacious. Older upper-income projects require endowments. In the Denver area, developers are planning high rises in urban settings (closer to downtown) with more resort quality features. Presently, Denver has no luxury projects.

SOUTHWEST

CCRC entrance fees range from $150,000 to $300,000, monthly rates from $1,300 to $1,500. In rental projects, people can expect to pay $1,500 to $3,000 per month. High-quality FF&E characterize this market. Units are larger with one-bedrooms having 900 square feet and two-bedrooms having 1,200 to 1,300 square feet. Virtually no studio units and few three-bedroom units (1,500 square feet) exist. Greater community use space and more costly and elaborate foodservice are other qualities that differentiate these from lesser income facilities.

SOUTHEAST

Rents range from $1,500 to $1,800 per month, and in Atlanta, rents can be as high as $2,200 per month. Atlanta's older endowment projects have entry fees of $75,000 to $115,000 with monthly fees of $1,000 to $1,200. The units are large with amenities sometimes including proximity to golf courses, whirlpool baths, pools and large community use areas. The amenities, though similar to modest- and middle-income projects, are served with exquisite frills and are very luxurious. A full range of amenities and services is offered in the monthly fees.

GOVERNMENTAL/LEGAL FACTORS THAT INFLUENCE SENIOR LIVING CENTERS

NORTHWEST

Washington is considering certification of retirement housing; the state currently has a tough CON process for nursing homes. Also, Washington has no state regulations for personal care. Alaska, which has a state CON process, has been very involved in the financing of assisted living facilities for those who have been state residents for more than 25 years; however, this time the requirement was challenged in court and will be changed. Alaska also provides a "longevity bonus" to residents, which in essence provides a supplement to Social Security benefits.

NORTHEAST

Pennsylvania has continuing care retirement center regulations and ongoing reporting regulations. Massachusetts has a special category of nursing home licensure for the true lifecare project. This state has proposed a new act for more disclosure on residential agreements/contracts. Until October 1985, Massachusetts was exempt from DRGs; the state now is enacting the regulations. In their 1986 sessions, the New York legislatures considered bills that would have permitted and regulated continuing care retirement communities. Although no legislation was passed, legislators will probably reintroduce the bills in the 1987 session.

GREAT PLAINS STATES

Minnesota's moratorium on nursing home beds makes the development of CCRCs possible only if operated with an existing nursing home. The state has no home care or personal care laws.

GREAT LAKES STATES

In Illinois, the CON process has a ratio of four units for every one nursing home bed. Illinois' proposal to sunset CON regulations could impact the retirement center industry. Illinois requires a commitment of occupancy before a CON is approved. No rules apply for assisted living, which is exempt from the process in Illinois. Michigan has a CON process and regulates the personal care industry. Ohio's Housing Finance Authority has set a moratorium on bond issuance on senior housing in the southern part of Ohio (near Cincinnati). Ohio's CON process makes it difficult to obtain nursing home beds. The state does not license the personal care industry. Federal tax laws on imputed interest affect the industry as a fully refundable entrance fee is, in effect, a tax shelter. Real estate taxes can cause development problems.

SOUTH CENTRAL

Few restrictions and no moratoriums exist in this region. The Texas Health Facilities Commission authorizes nursing homes. Colorado is debating the elimination of the CON process because in the past, the process prohibited developers from incorporating nursing home beds into their projects. The elimination of the CON process would result in more CCRC developments. In Denver, the inability to rezone some sites has caused some projects to be killed. Proposed national tax laws could affect financing of the projects.

SOUTHWEST

California's entrance fee regulations include a 50 percent presale with 20 percent of the money *collected* before any funds can be released from escrow for construction. The state established these regulations in response to defaults. Rentals, if financed by tax-exempt bonds, must have 30 percent of the units (not just 20 percent as in other states) set aside for low- to moderate-income residents. Also under consideration are other issues that could affect entrance fees projects' operating reserves, including a definition of when refunds are given and another look at the 50 percent presale requirements. California licenses "board and care" as a residential care project. In January 1987, California facilities will not have a need requirement. Arizona has had the same CON process since 1984. Nevada has little activity since the state lacks a strong market and has few continuing care facilities.

SOUTHEAST

Florida has stringent regulations. Developers must have 50 percent of the units preleased before construction starts (resulting in heavy carrying costs added on to the development expense). For lifecare projects, they must collect 10 percent of the entrance fees. Delays can cause the process to take up to two and a half years. Florida licenses assisted living facilities. Tennessee has appointed a Governor's Task Force to examine personal care regulations; other states are doing this as well. Although Georgia is changing its bed need formula, nursing home beds are currently difficult to obtain. In Florida, the hotel and restaurant division of the state licenses the independent market rate rental projects. Developmental Regional Impacts (DRIs) need to be completed for zoning.

NORTHWEST

Tax-exempt state bond issues and, to a lesser extent, conventional financing have raised funds for facilities. In Alaska, the state has been the principal entity in financing, however, funding will not be available for future developments.

NORTHEAST

Construction loans with mortgages (conventional financing) and tax-exempt bond issues finance developments in this region. However, few facilities are being financed currently.

GREAT PLAINS STATES

Syndications and tax-exempt bonds remain the principal financing mechanisms. In the Quad Cities, existing facilities finance expansions through cash flow derived from operations.

GREAT LAKES STATES

Nonrated tax-exempt bonds provide the principal method of financing. Industrial Development Bonds are still possible sources, but are expensive. Typically, nonprofits—501(c)3's are involved. The HUD 221(d)4 program will enhance financing options. Syndications have been used as tax shelters; however, this could be changed by tax reform. The Federal Housing Authority (FHA) credit enhancements and letters of credit are other current financing methods. Skepticism has caused few conventional lenders to be willing to advance money, and few developers have obtained financing.

SOUTH CENTRAL

Principally, financing has been accomplished through bond issues and conventional methods. Until the end of 1985, all financing had been through tax-exempt bonds. Currently, low rates have caused taxable bonds to be accessed. Some developers are investigating insurance companies as another avenue of financing because the local banks in Colorado have not been very receptive.

SOUTHWEST

Tax-exempt bonds, taxable bonds (starting this year and being used by a few developers), FHA financing and commercial loans through local banks are the principal methods of financing. The trend is toward conventional financing, syndication for equity and income production. Approximately 90 percent of projects are using conventional financing.

SOUTHEAST

Many facilities have been using commercial financing (e.g., taking a land loan on the property and then a commercial construction loan and a straight permanent loan). Syndications for equity provide another financing method. Tax-exempt bonds are not being used.

FINANCING TRENDS FOR FUTURE PROJECTS

NORTHWEST

In the future, state bond money will probably not be available. More financing will be provided through conventional methods and Federal (HUD) moneys will probably finance future projects in Alaska.

NORTHEAST

Tax-exempt financing may no longer be available. Conventional financing that provides permanent mortgages will become more prevalent when the bankers, insurance companies and other entities develop greater interest in the industry. Real estate syndication taxable bonds may be used; however, they could be affected by the SEC registration requirements and the attractiveness of other short-term financing methods.

GREAT PLAINS STATES

Government involvement on all levels will be increased. Other financing methods include increased use of syndications and combinations of debt with syndications.

GREAT LAKES STATES

More creative financing will surface since commercial lenders, insurance companies, S&Ls and others are expressing interest in learning more about the industry. Although financing methods will include letters of credit and taxable bonds, high interest rates will make taxable bonds less attractive. Limited partnerships through syndications will probably result in more economic return, cash flow and appreciation rather than tax write-offs and depreciation. Nonpublic financing may still play a part. In the future, HUD will probably be more involved with its 221(d)(4) program. More joint ventures are expected.

SOUTH CENTRAL

Much confusion exists over how the Federal tax reform bill will effect bonding and financing. The trend toward rentals will result in more commercial financing. Syndications for equity will be attempted.

SOUTHWEST

Taxable bonds and conventional methods will finance projects.

SOUTHEAST

Conventional financing is expected to continue particularly as lenders become more involved. More joint ventures (especially creative endeavors) are expected. Syndications and taxable bonds may be means of financing. Atlanta may use the HUDs 221(d)(4) program. The city has recently shown interest in pension funds and syndication pools—real estate investment trust (REITS)—but the Tax Reform Act of 1986 will put constraints on this partnership structure because the legislation requires longer depreciation periods, eliminates investment tax credits and affects capital gains. Investment pools, which are similar to mutual funds, will disperse the risk over several projects. Developers cannot rely on tax-exempt bonds as a source of financing because of use restrictions, limits on project type and end users, and the restrictive dollar volume limitations.

CRITICAL FACTORS FOR SUCCESS

NORTHWEST

Developers must understand Alaska's market and history. Consumers' attitudes regarding payment for care will be affected by state funding cuts to programs that provide free care.

NORTHEAST

Developers need a clear definition of their organization's role in the industry (developer, operator, joint venture partner) and need to assess and capitalize on its capabilities and strengths. They also need to be concerned for long-term elderly care. In New England, a hospital developer will be positively perceived for its involvement and long-term commitment. Developers must be able to finance multiple projects since an organization cannot succeed on a project-by-project basis.

GREAT PLAINS STATES

Success within the industry is expected to be achieved by those organizations who have a long-term commitment, solid financial strength, experienced personnel in all areas of operation and development, and an ability to market projects to the elderly successfully. Developers must have an understanding of the market, a good credit rating and the ability to acquire capital for expansions. Projects must be service oriented and have operating controls in place.

GREAT LAKES STATES

Developers must understand the market and the elderly and have an open mind about what will work in each market. They must be able to adapt to market specifications and realize that projects often fill up slower than expected. A strong management team (architect, contractor, consultant, underwriter, etc.) is essential. In the rural areas, developers must be able to network facilities and have good marketing techniques because of town rivalries.

SOUTH CENTRAL

Developers need to understand not only the market, but also the product in relationship to the market. They must recognize that their developments are not apartments for old people but facilities for a very special group of people who have special needs. Projects generally take a long time to fill, and the marketing costs are great, so an organization cannot have a "build and sell" mentality. An organization *must* have a long-term commitment and not expect to make money on its first or second development. Developers must also be able to handle simultaneous projects. In Colorado, developers will need their own sources of funding from out-of-state since acquiring financing within the state is difficult. A good track record of successful projects or superior management expertise is needed; also of value is a background in provision of care to the elderly. The developer *must* have a long-term commitment to the industry, and a background in the provision of care to the elderly.

SOUTHWEST

There is a strong need for a competent management team (i.e., management, organization, financing, operation, architect, marketing) that understands the development, operation and marketing of retirement center facilities. Marketing is critical! Projects must have the ability to sustain themselves during a slower than expected absorption period.

SOUTHEAST

Research indicates that the primary market, where 80 to 85 percent of a project's residents relocate from, is often less than 10 miles from their original home base. Psychological and geographical boundaries, along with elderly movement patterns, often have a major effect on determination of primary market areas of proposed projects. Recent focus group seminars have revealed the following major reasons for a move to a retirement community: a secure environment, availability of help in an emergency, transportation services, access to a nurse or other health care services, congregate dining facilities and difficulty in maintaining current residence.

A long-term commitment to the industry is a must—a hospital could provide this strength. Good management, a sophisticated marketing team, a proven track record and the ability to deliver what was promised to the market is essential. Also, there must be consistency and quality. The ability of residents to sell their homes and move into the facility is crucial. Developers must be able to sustain a project during a slow initial occupancy time.

DEMOGRAPHIC TRENDS IN THE RETIREMENT CENTER INDUSTRY

NORTHWEST

The elderly comprise about 10 percent or more of the total population in Seattle. In Alaska, the elderly account for about 3 to 5 percent of the total population. As the percentage of elderly rapidly increases and facilities for them become limited, the need for retirement housing will probably increase. Many people migrate to Alaska to work and want to remain there; however, the lack of an extended family makes this difficult. Salaries of employees have been traditionally very high, thus they have had healthy incomes in the past. The elderly usually stay in the area nine months of the year and go to a warmer climate in the winter.

NORTHEAST

The Northeastern and mid-Atlantic states have a very high percentage of elderly, however, there is some migration to warmer climates. The elderly are a relatively affluent due to labor unions from the manufacturing industries and pension/asset funds. Massachusetts is a small state with 5.7 million people, 3.5 million of which live in the Boston area. Approximately 14 percent of the Massachusetts population is over the age of 65, and this group is very affluent.

GREAT PLAINS STATES

The elderly comprise approximately 20 percent of the total population in Minnesota, Wisconsin and North Dakota. Few large metropolitan areas have high densities of elderly. Small market areas with a small total elderly density is the rule. Also, many potential markets contain communities that are separated by rivers and are located in two different states. Frequently, the elderly are reluctant to cross the rivers or move between the states. Some elderly couples travel to warmer climates during the winter months.

GREAT LAKES STATES

The number of elderly people as a percentage of the total population is increasing. Their income levels are also rising—many have pensions due to the heavy unionization of the area. Ohio is losing much of the young population because of the area economy. In southern Illinois, people who left the area 20 years ago are coming home to retire. The elderly comprise 20 to 22 percent of the population. In 1985, the median elderly household income was approximately $15,000 to $18,000.

SOUTH CENTRAL

Although the population in the urban areas of this section of the United States is still relatively young (only about 6 to 7 percent are aged 65 and over), the elderly represent a rapidly growing segment. Generally, the low density of elderly will cause market areas to saturate more easily. It is unlikely that large-sized projects can be supported. Rural areas tend to have higher proportions of elderly, but not many projects are expected to be built. Urban trends show an increasingly affluent elderly in the next five years, while the rural areas are expected to keep pace with inflation and remain status quo. The lower-income group of elderly is decreasing, and the higher income group is increasing because of better pensions.

SOUTHWEST

There has been a heavy migration of people to cities in the Southwest mainly because of the weather; however, many elderly people are underserved. Areas geographically segregated by the mountains could affect market area definition. Southern California and Los Angeles have experienced a heavy migration of cultural and ethnic groups from other countries. Frequently, these groups do not have an extended family to care for them, which makes retirement centers most attractive.

SOUTHEAST

People age 65 and older comprise nearly 20 percent of Florida's population. The median income for the state's elderly is approximately $20,000 to $25,000 per year. Florida has a trend of in-migration for the first retirement and an out-migration for the second retirement, or when one spouse dies. These elderly migration patterns have created a noteworthy market phenomenon. Florida is among the strongest magnets in attracting retirees with the largest number of elderly coming from Massachusetts, Connecticut, New Jersey, New York, Ohio, Pennsylvania and Michigan. Interestingly, those states that send the most people, conversely receive the most people from Florida, although the returnees tend to be older and more frail. Naturally, this has had strong implications for the senior living industry in terms of demand for various types of products. Atlanta's elderly population is increasing and so is its disposable income. Many young people are migrating to Atlanta.

CUSTOMER GROUPS CATEGORIZED BY INFLUENCER, PURCHASER OR USER

- Northwest—The user is the purchaser.
- Northeast—The user is the purchaser.
- Great Plains States—Children and family are influencers, and the elderly are purchasers.
- Great Lakes States—Children are influencers, however, the user is the purchaser.
- South Central—Children are influencers, however, the user is the purchaser.
- Southwest—The user is the purchaser. In the condominium market, there may be some instances where the children purchase the condominium and rent to the parents for the tax write-off, however, this is uncommon.
- Southeast—The user is most often the purchaser. In Atlanta, children may invest in cluster homes and rent them to their parents in the future.

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The senior living industry—1986

by James F. Sherman, Susan Brecht and Jamie B. Mandell

Overview

For the sixth consecutive year, Laventhol & Horwath has conducted a survey of the senior living industry. We have expanded the survey classifications this year in response to the diverse nature of this industry and the continued need for guidelines on which to base the future success and growth of the industry.

The senior living industry is multifaceted. It is comprised of an array of different types of facilities that include the following arrangements:

- Lifecare/Continuing Care Retirement Communities are typically distinguished by their requirements that residents pay both an upfront entrance fee and a monthly fee. The entrance fee may be fully refundable, partially refundable or nonrefundable. In such communities, residents sign a contract that specifies and guarantees certain services during their life, and the contract normally assures residents of life tenancy at the community. Lifecare and continuing care retirement communities provide an array of services in settings that range from independent living units to skilled nursing beds. With increasing frequency, such communities are incorporating personal care or assisted living units within their continuum.
- Congregate Care or Rental Retirement Facilities provide shelter and services that are often similar to those found in a lifecare or continuing care facility. A significant distinguishing feature is the method of payment. In congregate care facilities, residents do not pay an upfront entrance fee. Payment is limited to a monthly fee, and contracts are more typically for a specified duration, such as a year. While some congregate care facilities incorporate nursing beds, others do not and may instead have referral arrangements with area nursing homes.

The senior living industry survey was conducted on both rental and entrance fee senior living facilities. In our study, we have isolated rental facilities from those that charge entrance fees in order to show the differences in their operational and financial characteristics and to provide information for those with specific or isolated interest. In addition to including information on rental facilities, this year's study provides a considerable amount of new information. Tables and graphs are included on such things as apartment unit mix, screening prospective residents for financial capability, amount of financial assistance required, children's involvement in prospective residents' decision-making, marketing techniques and three-bedroom apartments.

The statistical tabulations are presented as follows:

- Chapter I: Rental Senior Living Facilities.
- Chapter II: Entrance Fee Senior Living Facilities.
- Chapter III: General Information.

The sample size in this year's senior living industry survey is the largest sample since Laventhol & Horwath introduced its study on the senior living industry six years ago. The sample, which consist of 169 senior living facilities, represents a cross section of the industry in terms of geographic location and type of senior living facility throughout the United States.

The statistical tabulations and narrative summaries are the key components of this comprehensive study on the operational and financial characteristics of the senior living industry. Our approach this year has been to identify and examine factors that currently affect this industry and those that may have an impact on the industry in the future.

Survey methodology

Survey questionnaires were distributed to senior living facilities throughout the nation to obtain information on their operations and finances. The survey questionnaires were descriptive, formally structured and designed to "get the facts."

Information on operations and finances was requested for the fiscal year of 1985. For some categories, information was requested for the previous three years. Audited figures were not required for the study.

Understanding medians and quartiles

A median is defined as the middle figure in a column of data arranged sequentially, either from high to low value or low to high. For example, if we received nine responses for the number of full-time employees such as 8,4,2,6,9,7,5,1,3, then these numbers arranged sequentially would be 1,2,3,4,5,6,7,8,9. The middle value 5 would be the median since 50 percent of the responses received fall below this value, and 50 percent are above it.

The responses are also broken into quartiles, or four equal parts, with the median still being the middle value. The lower quartile is the value that separates the lowest 25 percent of the responses from the rest of the sample when arranged sequentially, while the upper quartile defines the boundaries of the upper 25 percent of the responses from the lower 75 percent. Stated another way, 50 percent of all responses fall between the lower and upper quartiles. For example, if we receive 99 responses for a specific line item and the responses (conveniently) were numbered 1 through 99, the median (or middle value) would be 50, the lower quartile would be 25 (25 percent of the responses would be above 75). Fifty percent (or half) of the responses would fall between the lower and upper quartiles.

It is important to remember that each line item in the study is analyzed separately. The medians are based on the information submitted for that line item only, since not all senior living industry facilities reported data for each line. The arithmetic mean was also used occasionally.

One more fact to remember when comparing a senior living facility with data reported in this study is that it is not constructive to compare a whole column of data to your retirement center's results (the median column, for example).

The reader is cautioned that the statistical tabulations presented in this study are intended to be used as guidelines, not

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standards or goals. Laventhol & Horwath is not attempting to set or conform prices or operating ratios for senior living facilities. We are not able to create a probability sample that accurately reflects the composition of the various industry segments, because the respondents are self selected. Nonetheless, we believe that these compilations of data provide useful reference information.

Survey findings and conclusions

The statistical tabulations and corresponding narratives that follow represent many aspects of the senior living industry and the services offered. It is apparent that both rental and entrance fee senior living facilities are necessary to meet the various needs of a diversified elderly population. The many dimensions of the socioeconomic strata, interest and need for care play a major role in these decisions.

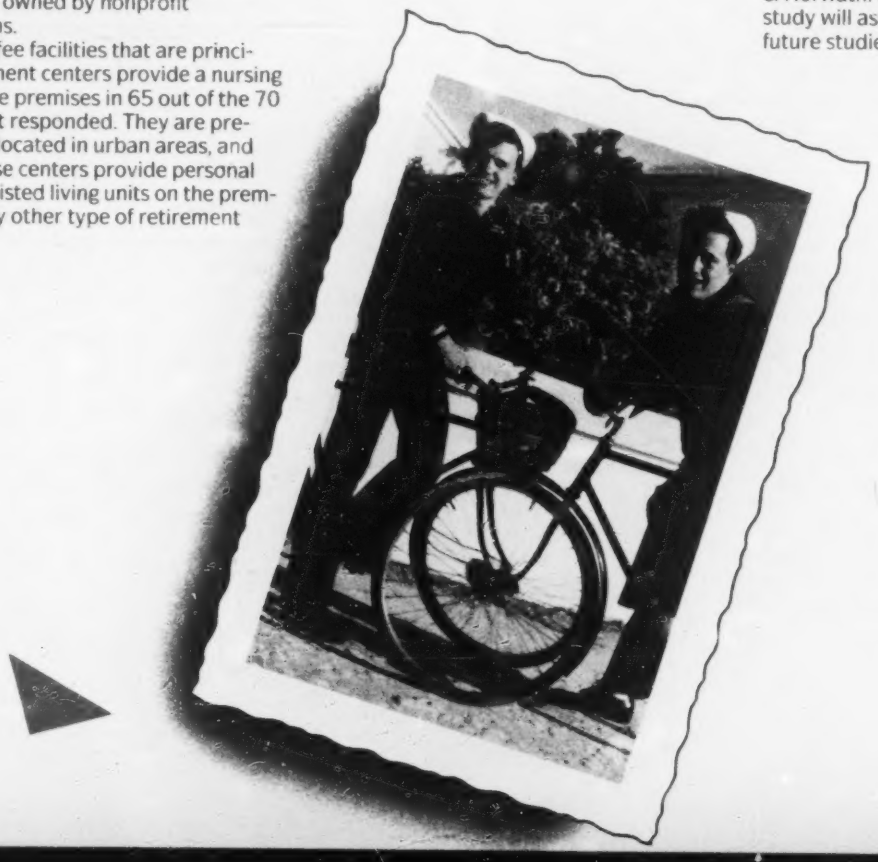
Rental senior living facilities are gaining considerable momentum in the for-profit sector. This year's study indicated that ownership of rental facilities is nearly evenly distributed between for-profit and nonprofit organizations. By contrast, 95 percent of the responding entrance fee facilities are owned by nonprofit organizations.

Entrance fee facilities that are principally retirement centers provide a nursing center on the premises in 65 out of the 70 facilities that responded. They are predominately located in urban areas, and more of these centers provide personal care and assisted living units on the premises than any other type of retirement center. This segment of the senior living industry has a high percentage of facilities with 200 apartments or more.

Highlights of other findings indicate that:

- The average age of senior living residents is 82 years. This figure is expected to increase with the "graying of America."
- Children of prospective residents frequently visit facilities with their parents; however, their involvement is limited in the final rental or purchase decision.
- Most facilities rely on print media, direct mail and community outreach activities rather than electronic media for marketing strategies.
- It is interesting to learn that quite a few rental facilities include on-site nursing centers. Given the data on nursing center square footage in these facilities, it is likely that, in many cases, these facilities represent nursing homes that developed rental retirement as an outgrowth of their basic nursing home business. Further, many rental facilities are located in urban settings and are smaller in terms of overall square footage.
- One contrast between rental and entrance fee facilities is that rental senior living residents generally come from a smaller geographic radius (five miles or less), live within a 30-minute drive of their children, and maintain fewer cars. Rental facilities also have more of a "neighborhood" orientation.
- As might be expected, monthly fees are higher overall in rental facilities because of the necessity to cover the costs of bad debt and operations. To illustrate, the median monthly fee for a one-bedroom apartment in a rental facility is $888 as opposed to $739 for the same size unit in an entrance fee facility.

As with all such research studies, the value of the survey results should be measured not only by the findings contained in this report, but also by comparing these findings to those of previous years and to those of future surveys. In this way, trends and shifts can be used to evaluate and learn more about the senior living industry facilities. Since this survey report is presented for the benefit of imparting relevant information about the industry, readers are encouraged to share their views on the contents with Laventhol & Horwath. A reader assessment of the study will assist in increasing the value of future studies.



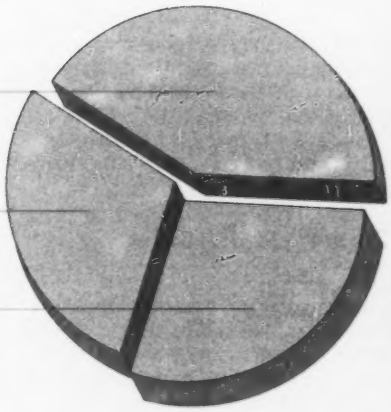
Profile of participants

The contributors to this study represent a broad cross section of the senior living industry. The exhibits in this section show the distribution of respondents for specific categories.

Type of facility

Responses from a total of 169 facilities were used to compile this year's report. Of these properties 50 operate strictly as rental facilities (with no entrance fees), while the remaining 119 have required entrance fees. Of these 119 facilities, 70 are principally retirement centers, and the other 49 are oriented toward nursing care. This breakdown, according to percentages, is shown in Chart 1. The distinction between the two is that facilities with fewer than two apartments for each nursing home bed are considered to be primarily nursing care facilities, while those with more than two apartments for each nursing home bed are defined as primarily retirement centers.

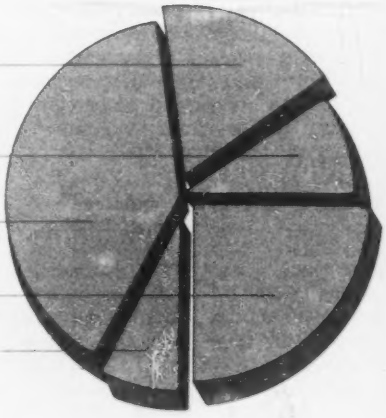
CHART 1
Type of Facility



Geographic location

The accompanying map illustrates how responses have been divided geographically. As shown in Chart 2, the largest segment of participating establishments, representing 39.6 percent, is located in the North Central region of the United States, followed by 24.8 percent situated in the Western region. The percentages of the respondents found in the Southeast, Northeast and South Central regions are 17.8, 10.1 and 7.7 respectively.

CHART 2
Region of Country



Facilities ownership

Participants were asked to provide organizational and ownership information. Among facilities charging entrance fees, 96 percent are owned by nonprofit organizations. By contrast, only 53 percent of the rental facilities are under nonprofit ownership, demonstrating the preference and trend among proprietary entities toward owning rental projects.

Location of facilities

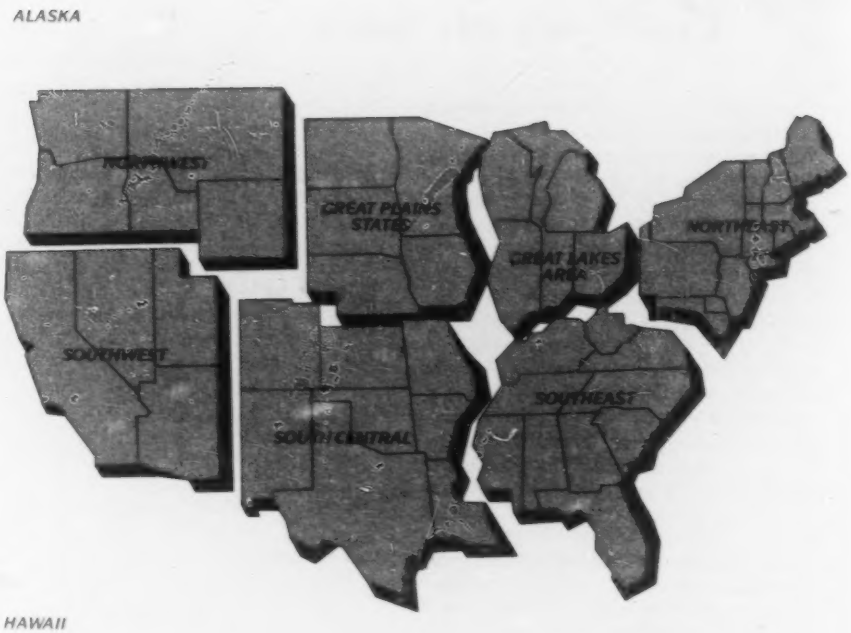
Location varies little with the type of center. From 55 to 57 percent of participating principally retirement center and rental facilities are located in urban areas, with 31 to 39 percent in suburban areas. Participating entrance fee facilities oriented toward nursing care are more evenly distributed between urban, suburban and rural settings.

Size and age of facilities

Approximately 66 percent of the participating facilities categorized as strictly rental reported having less than 200 apartments; 72 percent of rental facilities indicated the apartments were built before 1975. Among the entrance fee facilities that are oriented toward nursing care, 79 percent indicated having fewer than 200 apartments, and 77 percent reported that the apartments were built before 1975. Just over 50 percent of facilities characterized as principally retirement centers reported having more than 200 apartments, with 45 percent indicating their apartments were constructed subsequent to 1975.

On-site health care facilities

Seventy-two percent of the responding facilities have an on-site nursing center. Entrance fee facilities are much more likely to incorporate an on-site nursing center than strictly rental facilities: 72 percent compared with 32 percent. Among all respondents, 36.1 percent have personal care/assisted living units on site. Broken down by method of payment, 20 percent of rental facilities have on-site personal care, compared with 42.8 percent of the entrance fee facilities.



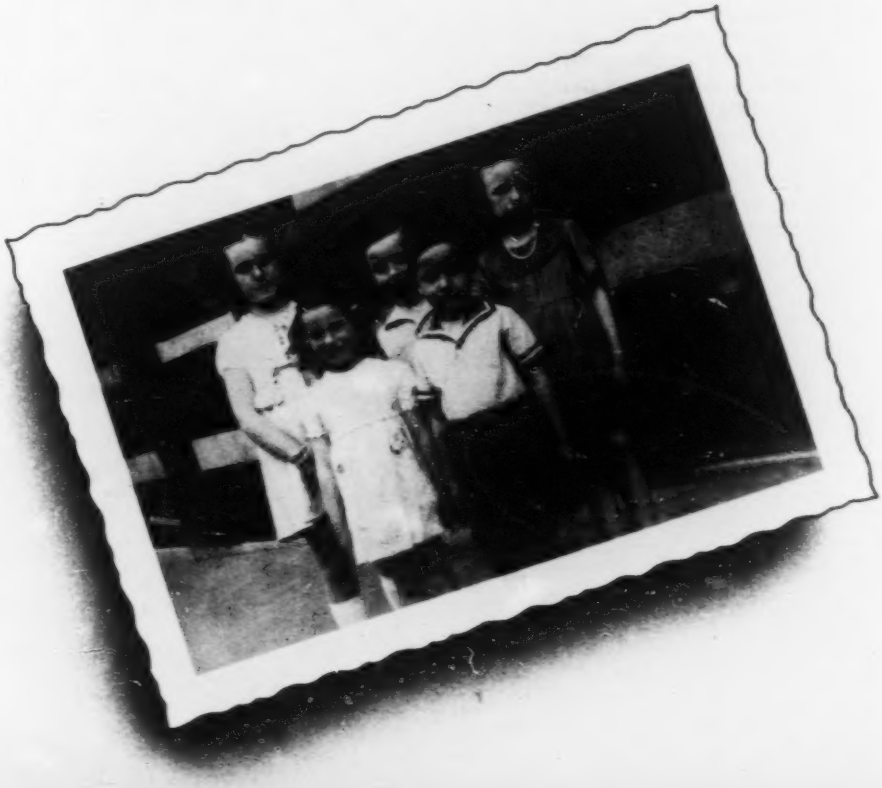


EXHIBIT 1
Number of Respondents Within Each Category

	Number of Respondents			
			Properties w/Entrance Fees	
	Total	Strictly Rental Facilities	Principally Retirement Center	Oriented Toward Nursing Care*
All Facilities	169	50	70	49
Owned By a Nonprofit Organization:				
Yes	140	26	66	48
No	28	23	4	1
Location:				
Urban Area	79	25	36	18
Suburban Area	59	14	27	18
Rural Area	21	6	5	10
Size of Facility:				
Under 200 Apartments	105	33	33	39
200 Apartments or More	64	17	37	10
Entrance Fees:				
50% to 100% Refundable Under All Conditions	29	N/A	14	15
Refundable for Period Fewer Than 50 Months	12	N/A	9	3
Refundable for Period Longer Than 50 Months	21	N/A	13	8
No Refund After Periods Longer Than 50 Months	14	N/A	8	6
No Refund Except for Trial Period	19	N/A	14	5
Projects Without Entrance Fees	50	50	N/A	N/A
Nursing Care Coverage Included In Monthly Fee:				
Virtually Unlimited Coverage:				
Built Before 1975	19	0	11	8
Built 1975 and After	12	0	9	3
Limited or No Coverage:				
Built Before 1975	65	12	26	27
Built 1975 and After	30	7	16	7
Retain a Management Company:				
Food Service	45	4	23	18
Overall Management	19	9	6	4
Region of Country:**				
Northeast	17	4	8	5
Southeast	30	9	15	6
North Central	67	12	27	28
South Central	13	2	6	5
West	42	23	14	5
Provide Free Transportation	100	31	36	33
Age of Apartments:				
Pre-1975	103	26	39	38
1975 and Later	66	24	31	11
Nursing Center on Premises	121	16	65	40
Personal Care/Assisted Living Units on Premises	61	10	30	21

*Facilities with fewer than two apartments for each nursing bed.
**Northeast—CT, DE, ME, MA, NH, NJ, NY, PA, RI, VT Southeast—DC, FL, GA, MD, NC, SC, VA, WV North Central—IL, IN, IA, KS, MI, MN, MO, NE, OH, SD, WI
South Central—AL, AR, KY, LA, MS, OK, TN, TX West—AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY
N/A-Not applicable

EXHIBIT 1A
Number of Apartments and Nursing Beds in Sample

Number in Sample of:	
Apartments	7,473
Nursing Beds	1,596
Average Number of Apartments for Each Nursing Bed	4.6

EXHIBIT 1B
Number of Apartments and Nursing Beds in Sample

	Principally Retirement Center	Oriented Toward Nursing Care
Number in Sample of:		
Apartments	17,004	4,838
Nursing Beds	3,493	6,340
Average Number of Apartments for Each Nursing Bed	4.8	0.8

Survey results

CHAPTER I
RENTAL RETIREMENT CENTER FACILITIES

SECTION A: PHYSICAL PLANT CHARACTERISTICS

Acreage and density

Exhibit I-1 presents total acreage information and number of apartment residents per acre for all rental facilities as well as by location. Facilities in rural locations have more acreage than those in urban and suburban locations.

Surprisingly, density, which is reflected by the number of apartment residents per acre, is higher in suburban locations than it is in urban ones. In general, participating rental facilities have smaller campuses than those with entrance fees. This may be due, in part, to the fact that rental facilities are less likely to incorporate nursing homes than are ones with entrance fees (as noted in the "Profile of Participants" section).

EXHIBIT I-1
Acreage and Density

	Lower Quartile	Median	Upper Quartile
Acreage:			
All Facilities	3.0	5.0	10.0
Location:			
Urban	2.3	5.0	6.0
Suburban	5.3	8.0	15.0
Rural	**	16.0	**
Number of Apartment Residents Per Acre			
Total	17.1	34.8	45.7
Location:			
Urban	22.0	36.1	46.0
Suburban	22.1	45.0	47.0
Rural	**	**	**

**Insufficient data.

Square footage statistics

The total square footage reported for the apartment complex in rental retirement centers is far less than in entrance fee facilities. Interestingly, 16 of the rental facilities participating in this year's survey indicated that they provide nursing care on site. (Exhibit I-2.)

Apartment unit mix

This year for the first time, we are including information on apartment unit mix. (Exhibit I-3.) Participating rental facilities reported a unit mix that was heavily oriented toward studio and one-bedroom apartments. This may reflect the age of the facilities responding this year since 66 percent were built prior to 1975.

EXHIBIT I-2
Square Footage Statistics

	Total	
	Lower Quartile	Median
Total Area of:		
Apartment Complex	25,000	64,107
Nursing Center	9,120	47,000
Personal Care/ Assisted Living Center	3,309	8,757
Activities Center	8,823	23,941
Apartment Size:		
Studio	300	362
One-Bedroom Apartment	391	525
Two-Bedroom Apartment	610	844
Three Bedroom Apartment	715	1,516
Personal Care/Assisted Living Size:		
One-Bedroom Unit	302	548
Private Room	242	335
Two Beds Per Room	**	**

*All amounts are medians.
**Insufficient data.

EXHIBIT I-3
Apartment Unit Mix

	Total		
	Lower Quartile	Median	Upper Quartile
Types of Apartment:			
Room/Studio	26.8%	57.9%	74.5%
One Bedroom	25.9	41.9	68.2
Two Bedroom	6.0	10.0	27.2
Three Bedroom	**	1.4	**

**Insufficient data.

Size*			Age*	
Upper Quartile	Under 200 Apartments	200 Apartments or More	Built Pre-1975	Built 1975 and Later
149,144	25,250	152,500	53,796	110,000
76,000	69,000	11,797	47,096	47,000
19,857	8,749	8,757	8,757	6,916
26,763	19,941	22,592	17,500	25,000
429	323	423	373	356
654	483	644	540	492
1,120	764	930	764	872
2,101	1,736	1,296	**	1,296
643	596	531	**	636
560	369	300	**	460
**	**	280	**	**

Nursing center beds per facility

For those rental facilities that include an on-site nursing unit, the number of beds is quite high, particularly by comparison to the entrance fee facilities categorized as principally retirement centers. (Exhibit I-4.) This data also suggests that among responding rental facilities, those with less than 200 apartments are more oriented toward nursing care than those with more than 200 apartments.

SECTION B: RESIDENT CHARACTERISTICS

Percentage of male and female residents

In contrast to the findings reported for facilities charging entrance fees (Chapter II), rental facilities indicated a shift from a 4:1 to a 3:1 ratio of females to males during a three-year period as shown in Exhibit I-5.

Age of residents

Of interest in this year's study is the finding that the average age at entry for residents of rental facilities is very similar to the age of those residents entering facilities that charge entrance fees. One trend noted by the rental facilities that participated in our study is that the older facilities show lower ages at entry and on average than the newer facilities.

Annual apartment turnover

Annual turnover rates per 100 residents are higher in facilities built since 1975. The difference is less significant in terms of turnovers resulting from deaths.

Turnover due to permanent transfers to the nursing center is not only higher in the rental facilities built more recently but is higher than any of the comparable data reported by facilities charging entrance fees. This suggests a comparatively high level of frailty among this group.

EXHIBIT I-4
Nursing Center Bed Analysis

	Total		
	Lower Quartile	Median	Upper Quartile
Number of Beds Per Community	57.0	64.0	140.0
Number of Apartments Per Bed	2.7	4.6	5.0

EXHIBIT I-5
Percentage of Males and Females

	Mean		Range	
	Male	Female	Male	Female
1985	32.0%	68.0%	4.8%–80.0%	20.0%–95.2%
1984	25.7	74.3	3.5 –58.1	41.9 –96.5
1983	22.8	77.2	2.6 –40.3	59.7 –97.4

EXHIBIT I-6
Average Age of Residents*

	Residents' Average Age at Entry to Apartments During the Last Three Years		Average Age of All Residents 1985	
	Male	Female	Male	Female
All Facilities	79.0	79.0	81.0	80.5
Age of Apartments:				
Built Pre-1975	77.0	77.0	80.5	80.0
Built 1975 or Later	79.5	80.0	82.0	82.0

*All amounts are medians.

SECTION C: FEES/RATES

PART I: REVENUE

Monthly apartment fees

Exhibit I-8 shows monthly apartment fees for various size units by location, age and size of facility. The broad range in fees shown is due to the fact that facilities include various combinations of services—such as meals, housekeeping and personal care—in their monthly fees. However, as would be expected, monthly rental apartment fees are higher than monthly rates for entrance fee senior living apartments. This trend holds true for all size units and is due, primarily, to the fact that in rental facilities the monthly fee must cover both the cost of operations and the debt carried by the facility.

EXHIBIT I-7
Annual Apartment Turnover per 100 Residents*

	Deaths		Permanent Transfers To Nursing Center		Total Turnover		
	Males	Females	Males	Females	Males	Females	Combined**
Pre-1975 Facilities:							
1985	4.0	3.5	2.5	4.4	9.0	8.6	8.6
1975 and Later Facilities:							
1985	6.9	4.4	8.3	6.5	11.7	13.2	14.7

*All amounts are medians.
**Taking into consideration previously stated proportion of females and males for each year.

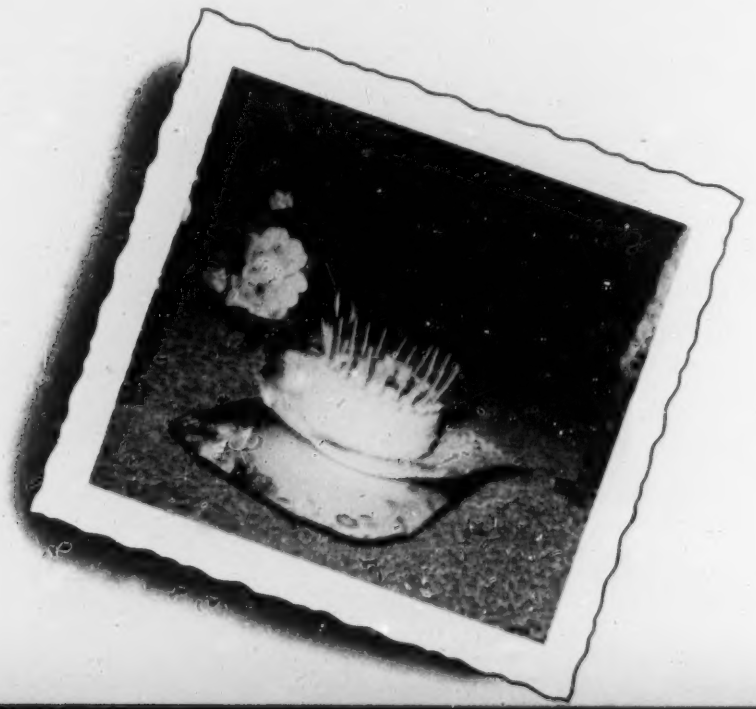


EXHIBIT I-8
Monthly Apartment Fees By Selected Criteria

	Studio			One-Bedroom		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
All Facilities	$421	$ 737	$ 981	$504	$ 888	$1,200
Location:						
Urban	650	745	901	746	937	1,192
Suburban	719	1,000	1,053	913	1,200	1,413
Age:						
Built Pre-1975	424	705	1,000	576	850	1,200
Built 1975 & Later	733	850	1,000	881	1,143	1,294
Under 200 Apartments	449	742	975	600	900	1,200
200 Apartments of More	592	760	1,082	790	1,176	1,412

**Insufficient data.

Nursing center daily rates

Exhibit I-9 presents the daily rates for private and semiprivate rooms for skilled and intermediate care. Little difference is noted between the rental and the two varieties of entrance fee senior living facilities.

Rate increases

Rate increases at rental facilities (Exhibit I-10) were consistent with those facilities charging entrance fees, where annual increases have held constant at 5 percent over the past three years. Rate increases are influenced primarily by factors such as the cost of providing services and increased competition.

EXHIBIT I-9
Nursing Center Daily Rates

	Private Room			Semiprivate Room		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Skilled	$63	$82	$90	$54	$68	$80
Intermediate	49	61	65	45	47	69

EXHIBIT I-10
Apartment and Nursing Center Percentage Rate Increase

	Percentage Increase in Apartment Rates	Percentage Increase in Nursing Care Rates
Lower Quartile	5.0%	2.5%
Median	5.0	5.0
Upper Quartile	6.8	9.5

One Person						Second Person Additional	
Two-Bedroom			Three-Bedroom			One Bedroom	Two Bedrooms
Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Median	Median
$ 825	$1,200	$1,850	$ 995	$1,725	$2,398	$200	$263
834	1,168	1,739	**	**	**	208	290
1,360	1,884	2,000	2,163	2,332	2,464	200	263
722	1,360	1,884	**	2,464	**	200	253
1,021	1,350	1,838	1,094	1,725	2,187	225	263
821	1,280	1,537	**	**	**	200	253
905	1,493	1,971	985	2,150	2,464	250	270

EXHIBIT I-11
Payroll Information—Salaries and Number of Employees

	All Facilities			Size*
	25%	50%	75%	Under 200 Apartments
Salary per Person for:				
Executive Director or Administrator	$24,250	$34,344	$38,750	$25,000
Assistant Executive Director	14,370	21,998	25,313	18,998
Administrative (Excluding Nursing)	13,036	14,071	17,316	14,226
Nursing Center Administrator	20,369	29,867	33,315	**
Administrative (Nursing)	11,950	14,164	17,099	**
Nursing Staff	10,303	11,943	15,083	11,943
Personal Care Staff	8,983	11,296	12,927	10,600
Dietary	8,541	9,459	11,930	9,818
Housekeeping & Laundry	7,313	8,838	10,264	8,838
Maintenance	12,234	13,850	16,995	13,036
Social Activities	11,125	12,866	15,075	11,250
Vehicle Drivers	4,570	9,587	12,100	6,279
Security	7,800	9,733	11,950	10,200

*All amounts are medians.
**Insufficient data.

PART II: EXPENSE

Payroll information

Exhibit I-11 provides information on salaries and number of employees for rental facilities. As shown, slightly higher wages are being paid at the larger facilities in most categories. In comparison to entrance fee projects, rental facilities participating in the study have somewhat lower salaries for senior administrative staff.

Exhibit I-12 presents operating statistics for facilities of various sizes and locales. The wide range between the lower and upper quartiles is representative of the many variances in the way facilities offer services and the staff level at which those services are offered. For example, the lower quartile might represent a facility with cafeteria-style dining, whereas the upper quartile might represent a facility that provides waitress service to satisfy residents of a wealthier socioeconomic group. Variances may also be an indication of an operation's level of efficiency.

200 Apartments or More	Location*		Number of Employees All Facilities—by Percentiles		
	Urban	Suburban/ Rural	25%	50%	75%
$37,000	$30,800	$36,500	1.0	1.0	1.0
23,000	22,498	22,625	1.0	1.0	1.0
14,071	14,000	14,653	1.3	4.0	7.0
29,867	**	30,000	1.0	1.0	1.0
11,975	16,300	12,000	1.0	1.8	2.0
11,594	10,518	13,297	6.0	32.5	43.0
11,600	9,510	11,600	1.5	5.5	7.5
9,542	9,397	11,400	10.0	18.5	26.0
8,385	8,192	10,000	4.0	9.0	13.0
14,000	13,502	15,134	2.0	3.3	5.4
15,050	13,280	14,633	1.0	2.0	3.0
10,000	9,673	9,750	1.0	1.0	2.0
9,267	8,186	11,075	2.0	4.0	5.0

EXHIBIT I-12
Payroll and Employee Statistics

	Total			Size*		Location*	
	Lower Quartile	Median	Upper Quartile	Under 200 Apartments	200 Apartments or More	Urban	Suburban/ Rural
Dietary Department							
Dietary Payroll Per Meal	$.58	$1.05	$2.11	$.58	$1.83	$.59	$.90
Housekeeping and Maintenance Department							
Housekeeping Payroll Per Square Foot of Entire Facility	.24	.56	1.00	.59	.48	.23	.62
Maintenance Payroll Per Square Foot of Entire Facility	.26	.38	.66	.27	.38	.37	.43
Square Feet Per Housekeeper	7,541	15,828	26,700	14,525	16,221	15,828	15,280
Square Feet Per Maintenance Employee	22,950	36,350	66,109	50,000	34,100	40,164	36,350

*All amounts are medians.

Various expenses

In Exhibit I-13, raw food costs vary greatly among facilities. To an extent, this reflects the different socioeconomic segments of the elderly market being served. Variations in utility costs reflect such factors as geographic location and types of building, as well as the efficiency level of facilities' heating, ventilation and air-conditioning equipment.

Reserve funds

Senior living facilities reported the amount of funds they were holding in reserves for purposes other than debt service or mortgage repayment. We calculated the reserves per resident by dividing this amount by the number of apartment residents in the respondent's facility (Exhibit I-14). Chapter II provides the same information on senior living centers charging entrance fees.

Financial assistance

As shown in Exhibit I-15, respondents expect the percentage of residents eventually requiring financial assistance to rise significantly above the current status. Operators of senior living facilities indicate this expectation because some residents who will spend many more years in these facilities may have difficulty keeping up with annual rental rate increases.

EXHIBIT I-13
Various Expense Statistics—1985

	Total			Size*	
	Lower Quartile	Median	Upper Quartile	Under 200 Apartments	200 Apts or More
Raw Food Cost Per Meal	$ .95	$1.16	$2.12	$1.12	$1.52
Utilities Expense Per Square Foot	.82	1.26	1.65	1.19	1.14
Cost of Food Management Service Per Meal	**	.40	**	.40	.40

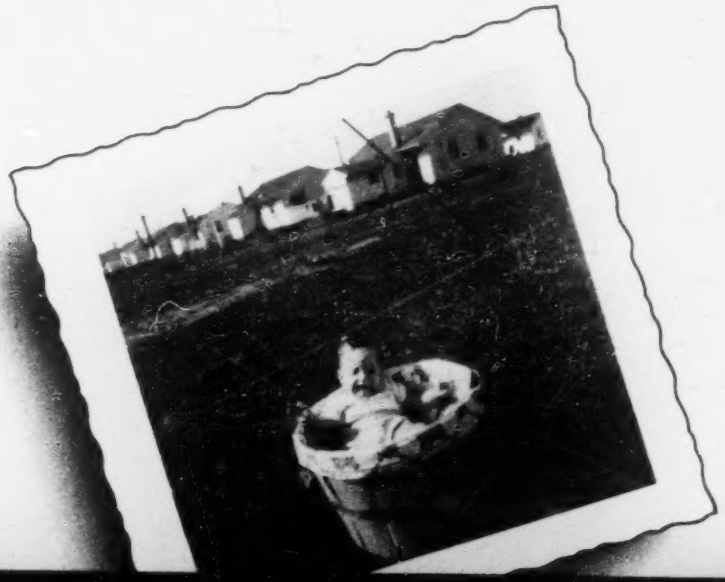
*All amounts are medians.
**Insufficient data.

EXHIBIT I-14
Reserve Funds

	Lower Quartile	Median	Upper Quartile
Total Amount of All Reserves	$ 96,071	$198,416	$573,307
Total Reserves Per Resident	$ 449	$ 1,062	$ 3,246

EXHIBIT I-15
Financial Assistance for Rental Facilities

Percentage of Residents Who Currently Require Financial Assistance	
—All Facilities	
Lower Quartile	4.1%
Median	12.3
Upper Quartile	24.5
Percentage of Current Residents Who Will Eventually Require Assistance	
Median	19.0%



Marketing techniques

This year's study includes new information on marketing techniques employed by responding facilities. As shown in Exhibit I-16, rental properties place the greatest emphasis on the use of print media and community outreach activities, with a strong emphasis on direct mail as well. The strong preference for radio over television may be due not only to its perceived effectiveness but also to the difference in cost.

Primary market area and proximity to children

As shown in Exhibit I-17, nearly 80 percent of the participating rental facilities reported that their residents came from within a 25-mile radius. This finding holds true for entrance fee facilities as well, as explained in Chapter II. Of interest, however, is that a much higher percentage of rental facilities indicated that their residents came from within less than a 5-mile radius than did entrance fee projects. This may suggest that rental facilities have a greater tendency toward a "neighborhood" orientation. Rental properties also reported that a greater percentage of residents lived within a 30-minute drive of their children.

EXHIBIT I-16
Marketing Techniques
Strictly Rental Facilities

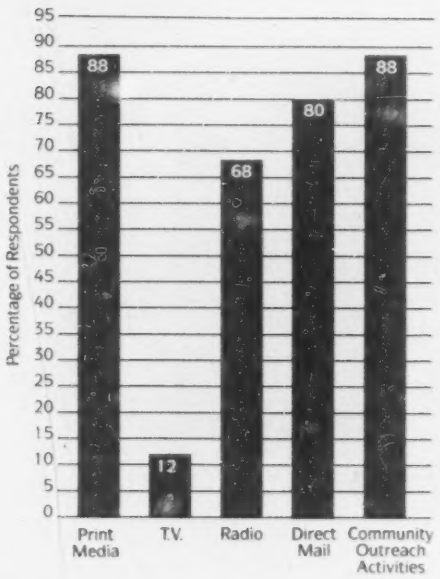


EXHIBIT I-17
Primary Market Area and Proximity to Children

Percentage of Communities Which Estimate Their Primary Market Area to be:	
Less Than 5 Mile Radius	26%
5 to 10 Mile Radius	19
11 to 15 Mile Radius	19
16 to 20 Mile Radius	5
21 to 25 Mile Radius	10
Over 25 Mile Radius	21
Percentage of Residents Who Have Children Estimated to Live Within 30 Minutes Driving Time*:	
Urban Communities	60%
Suburban or Rural Communities	60

*All amounts are medians.

Involvement of children in potential resident's decision

A frequent question asked by those planning retirement communities is "How involved are children in the decision of a parent to move to a retirement community?" This year our study includes information on this issue (Exhibit I-18). What clearly emerges is that while children do play a role, it is the prospective resident who ultimately makes the decision (as indicated by the percentage of children who participate in the final close).

Preconstruction sales results and fill periods

Of particular interest in Exhibit I-19 is that rental communities are clearly conducting preconstruction marketing programs even though they do not require substantial up-front deposits. Preconstruction marketing campaigns are considered an important tool to gauging the intent and interest of prospective residents. Rental facilities reported lower levels of sales prior to construction than facilities with entrance fees; however, those participating in our survey reported shorter fill periods than participating entrance fee facilities.

Waiting lists

In older rental facilities, waiting lists are longer for the larger units (Exhibit I-20). Waiting lists at newer facilities are more evenly distributed among various sizes of apartments, indicating the likelihood that newer facilities contain more larger units. This trend also occurs for facilities charging entrance fees, but with one interesting difference. Specifically, the waiting lists at facilities charging entrance fees are two to three times as long as those at rental facilities. This may possibly relate to the fact that the rental facilities participating in this survey show much higher turnover than participating entrance fee facilities.

EXHIBIT I-18
Involvement of Children
in Resident's Decision to Move
Strictly Rental Facilities

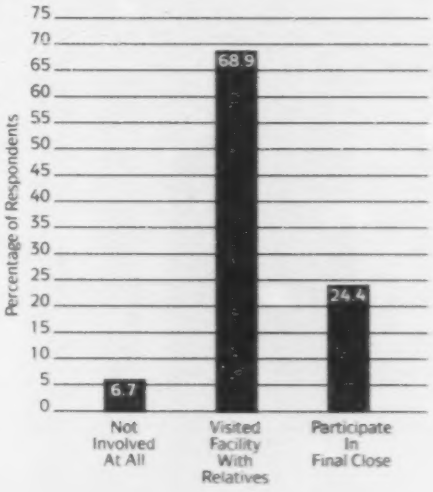


EXHIBIT I-19
Marketing Costs, Preconstruction Sales Results and Fill-up Time
For Communities Built 1977 and Later*

Marketing Cost Per Unit	
Percentage of First-Phase Unit Sales Achieved Before Construction Started	35.0%
Percentage of Apartment Units Filled During:	
1st Six Months	65.0
2nd Six Months	35.0
3rd Six Months	22.5
4th Six Months	**
Number of Months to Achieve 95% Occupancy	12.0

*All amounts are medians.
**Insufficient data.

EXHIBIT I-20
Waiting List for Rental Facilities*

	Built Pre-1975	Built 1975 and Later
Number of Months on Facility Waiting List:		
Studio/Room	4.5	4.5
One-Bedroom	9.0	3.0
Two Bedroom	8.0	3.0

*All amounts are medians.

CHAPTER II
ENTRANCE FEE RETIREMENT CENTER FACILITIES

SECTION A: PHYSICAL PLANT CHARACTERISTICS

Acreage and density

Exhibit II-1 presents information on acreage and density for facilities charging entrance fees. In the principally senior living category, suburban facilities seem to be built on a larger campus than either urban or rural facilities. This reflects the tendency toward high-rise construction in urban settings and toward smaller facilities in rural, less densely populated areas. Related to this is the finding that greater density (i.e., residents per acre) occurs in urban principally retirement centers as compared with suburban facilities. The lower median acreage overall, which is reported by facilities oriented toward nursing care, probably is due to the fact that a larger number of these facilities have fewer than 200 residential units.

EXHIBIT II-1
Acreage

	Principally Retirement Center			Oriented Toward Nursing Care		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Acreage:						
All Facilities	6.0	17.0	44.3	10.0	14.0	40.0
Location:						
Urban	3.0	7.5	19.3	7.8	12.0	26.5
Suburban	17.0	40.0	69.0	10.0	18.0	40.0
Rural	6.5	12.5	56.8	11.0	25.0	60.0
Number of Apartment Residents Per Acre						
Total	5.5	14.3	29.7	1.1	4.8	8.9
Location:						
Urban	13.9	26.0	48.7	1.8	5.3	18.7
Suburban	5.4	6.3	15.1	1.5	7.9	13.9
Rural	**	**	**	0.9	1.0	5.7

**Insufficient data

Square footage

In this year's study, we have added several new items of information on square footage, including data on three-bedroom apartments and additional data by size and age for facilities oriented toward nursing care. Other square footage statistics shown in Exhibit II-2 are consistent with data reported in previous surveys. Not surprisingly, the apartment complexes in principally retirement centers are significantly larger than the apartment complexes of facilities oriented toward nursing care. However, the type of center seems to have little effect on room size. Worth noting is that principally retirement center apartment complexes built in 1975 and later are substantially larger than those built before 1977, whereas newer facilities with a nursing care orientation seem to be smaller than ones built before 1975. Also, as expected, personal care/assisted living size units are smaller than other apartment units.

EXHIBIT II-2
Square Footage Statistics

	Lower Quartile	Total Median
Principally Retirement Center		
Total Area of:		
Apartment Complex	97,615	159,940
Nursing Center	11,072	18,430
Personal Care/ Assisted Living Center	6,776	14,262
Activities Center	15,000	25,500
Apartment Size:		
Studio	300	378
One-Bedroom Apartment	540	604
Two-Bedroom Apartment	796	900
Three-Bedroom Apartment	1,164	1,361
Personal Care/Assisted Living Size:		
One-Bedroom Unit	393	533
Private Room	250	282
Two Beds Per Room	281	342
Oriented Toward Nursing Care		
Total Area of:		
Apartment Complex	35,640	65,900
Nursing Center	24,800	37,956
Personal Care/ Assisted Living Center	7,684	23,307
Activities Center	5,372	17,530
Apartment Size:		
Studio	312	365
One-Bedroom Apartment	537	600
Two-Bedroom Apartment	864	950
Three-Bedroom Apartment	1,002	1,400
Personal Care/Assisted Living Size:		
One-Bedroom Unit	210	361
Private Room	180	208
Two Beds Per Room	225	259

*All amounts are medians.
**Insufficient data.

	Size*		Age*	
Quartile	Upper Apartments	Apartments Under 200 or More	Built 200Built Pre-1975	1975 and Later
267,991	99,646	221,874	120,000	197,797
32,250	12,224	24,796	18,360	19,052
24,327	6,301	17,579	7,602	19,333
44,600	23,717	29,317	25,000	27,109
440	346	410	370	415
674	600	625	609	600
1,050	900	900	905	900
1,506	1,338	1,384	1,415	1,538
605	463	533	516	564
381	258	300	263	350
877	322	**	318	--
118,888	58,300	211,790	87,795	56,584
59,000	31,769	66,550	51,154	39,905
49,113	19,800	53,725	27,000	9,380
34,838	9,743	37,000	17,800	8,525
412	360	375	392	342
652	600	618	600	690
1,022	950	948	923	1,070
2,772	1,204	**	**	--
495	322	480	400	--
275	208	220	194	--
336	293	225	259	--

Apartment unit mix

In Exhibit II-3, participating facilities reported a mix which indicates that one-bedroom units typically represent the largest share of apartments. The relatively high percentages shown for studio units probably reflect the fact that many of the facilities participating in the study are older. Current trends indicate strong consumer preference for larger units, and many new facilities plan to provide very few studio units.

Nursing center bed analysis

As stated in the 1985 survey, ideally, communities with nursing center beds should have enough beds to supply the eventual needs of their maturing population. Most states have regulations requiring that a nursing station have no more than 60 beds. In Exhibit II-4, the data for principally retirement centers reflect these regulations for all respondents and for larger and newer facilities. As revealed in earlier studies, this type of facility also frequently has a ratio of approximately four apartments to each nursing bed.

Also in this year's study, the response from principally retirement center facilities is slightly larger than the response from facilities oriented toward nursing care. This partially accounts for the decrease in the number of nursing beds per community compared with last year's study. Principally retirement center facilities provide personal care for residents, possibly substituting an intervening level of care that meets the needs of some residents who previously might have been placed in the nursing facility.

The data for facilities oriented toward nursing care indicate that newer facilities have fewer beds and more apartments. This suggests that even among this type of facility there is an increasing trend toward providing for the more independent elderly segment.

EXHIBIT II-4
Nursing Center Bed Analysis

	Total	
	Lower Quartile	Median
Principally Retirement Center:		
Number of Beds Per Community	34.0	56.0
Number of Apartments Per Bed	3.0	4.0
Oriented Toward Nursing Care:		
Number of Beds Per Community	77.2	117.0
Number of Apartments Per Bed	0.5	0.9

*All amounts are medians.

EXHIBIT II-3
Percentage of Various Apartment Sizes to Total Facility

	Principally Retirement Center			Oriented Toward Nursing Care		
	Total			Total		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Type of Apartment:						
Room/Studio	18.3%	36.3%	64.8%	12.7%	23.3%	69.8%
One-Bedroom	30.0	41.9	56.2	27.1	47.5	75.3
Two-Bedroom	6.8	17.7	31.8	14.7	27.0	44.9
Three-Bedroom	1.2	1.7	9.8	**	4.7	**

**Insufficient data.

	Size*		Age*	
Upper Quartile	Under 200 Apartments	200 Apartments or More	Built Pre-1975	Built 1975 and Later
66.0	34.0	60.0	43.5	60.0
5.0	3.5	4.0	4.0	3.5
199.0	99.5	200.0	159.0	88.6
1.3	0.7	1.1	0.8	1.1

SECTION B: RESIDENT CHARACTERISTICS

Percentage of male and female residents

All results during the six years this survey has been conducted have consistently shown a ratio of approximately four women for each man in the average retirement center. This does not differ between principally retirement centers and those oriented toward nursing care. Exhibit II-5 also includes the range of all responses to reflect the wide variance that occurs between facilities.

EXHIBIT II-5
Percentage of Males and Females

	Mean		Range	
	Male	Female	Male	Female
Principally Retirement Center				
1985	24.4%	75.6%	6.4%-86.5%	13.5%-93.6%
1984	23.3	76.7	4.4 -86.4	13.6 -95.7
1983	25.9	74.1	5.0 -86.2	13.8 -95.0
Oriented Toward Nursing Care				
1985	23.0%	77.0%	8.2%-50.4%	49.6%-91.8%
1984	24.2	75.8	7.3 -50.4	49.6 -92.8
1983	23.9	76.1	10.2 -50.0	50.0 -89.8

Age of residents

Exhibit II-6 presents the average age of residents upon entry to entrance fee facilities during the last three years and the average age of all residents during 1985. For principally retirement centers, the median age is higher for facilities built before 1975 than for the more recently built ones.

EXHIBIT II-6
Average Age of Residents*

	Residents' Average Age at Entry to Apartments During the Last Three Years		Average Age of All Residents 1985	
	Male	Female	Male	Female
Principally Retirement Center				
All Facilities	79.0	78.0	82.0	82.0
Age of Apartments:				
Built Pre-1975	79.0	78.0	83.0	83.0
Built 1975 or Later	79.0	77.0	81.0	81.0
Oriented Toward Nursing Care				
All Facilities	80.0	80.0	82.0	82.0
Age of Apartments:				
Built Pre-1975	80.0	80.0	82.0	82.0
Built 1975 or Later	79.0	79.0	82.0	82.0

*All amounts are medians.

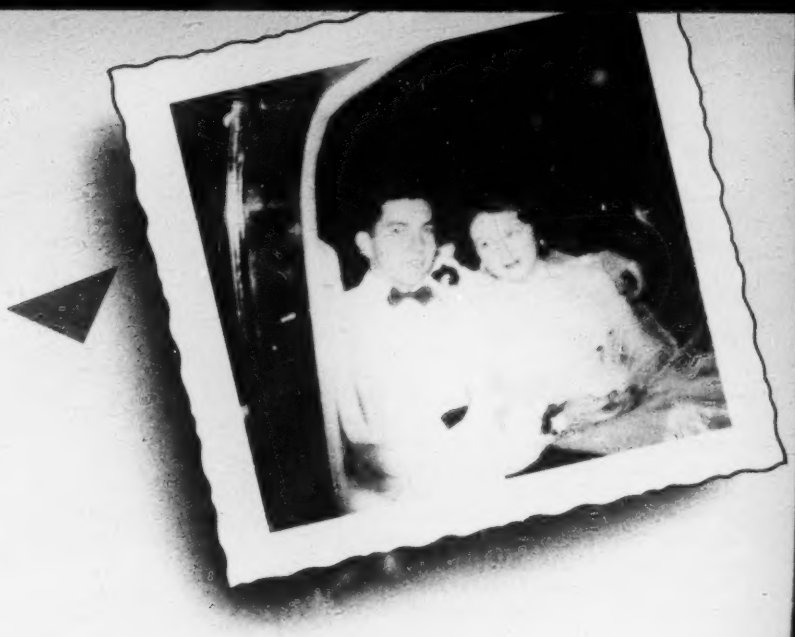
Annual apartment turnover

Exhibit II-7 indicates a much higher turnover rate among men than women. Older facilities also show a higher level of turnover. The 12.0 median rate for apartment turnover for 1985 translates into 30 or more apartments becoming vacant each year for an older facility having 300 apartments.

EXHIBIT II-7
Annual Apartment Turnover per 100 Residents*

	Deaths		Permanent Transfers To Nursing Center		Total Turnover		
	Males	Females	Males	Females	Males	Females	Combined**
Principally Retirement Center							
Pre-1975 Facilities:							
1985	8.4	6.0	5.4	4.5	14.8	10.8	12.0
1984	9.1	5.7	5.6	5.3	14.7	10.7	11.5
1983	7.2	5.4	4.3	4.6	11.5	10.0	10.3
1975 and Later Facilities:							
1985	8.9	3.8	2.1	3.4	12.1	7.9	8.8
1984	5.4	3.5	4.3	2.9	9.7	6.4	7.1
1983	8.1	3.1	2.5	2.4	10.6	5.5	6.6
Oriented toward Nursing Care							
Pre-1975 Facilities:							
1985	4.8	3.6	9.2	5.4	14.4	9.0	10.1
1984	7.0	2.8	9.1	12.5	16.1	15.3	15.6
1983	10.7	4.1	12.1	12.1	22.8	16.2	18.8

*All amounts are medians.
**Taking into consideration previously stated proportion of females and males for each year.



Patient days in the nursing center

Exhibit II-8 shows the number of patient days the principally retirement center apartment residents or former apartment residents spent in the facility's nursing center. As expected, the older facilities had a substantially higher ratio of permanent transfer patients.

The number of nursing beds in use in a theoretical facility with 250 residents is determined by multiplying the patient days per resident per year by the number of residents, then dividing the results by 365. In Exhibit II-8, a 250-resident principally retirement center facility built before 1975 had a median of 3.1 filled beds on a temporary basis and 27.3 beds for permanent transfers.

EXHIBIT II-8
Patient Days in Nursing Center by Principally Retirement Center Residents or Former Residents

	Lower Quartile	Median	Upper Quartile
Patient Days Per Apartment Resident Per Year:			
Temporary:			
Built Pre-1975	3.0	8.0	14.0
Built 1975 and Later	7.1	10.6	17.3
Permanent:			
Built Pre-1975	41.0	51.0	86.0
Built 1975 and Later	15.5	31.9	39.3
Number of Beds Occupied Per Day in Nursing Care Center for a Facility with 250 Apartment Residents:			
Temporary:			
Built Pre-1975	1.8	5.1	7.2
Built 1975 and Later	4.8	7.6	14.1
Permanent:			
Built Pre-1975	21.2	27.3	38.2
Built 1975 and Later	10.8	22.5	28.4

SECTION C: FINANCIAL CHARACTERISTICS

PART I: REVENUE

Apartment entrance fees

Exhibit II-9 shows a wide range of entrance fees between the lower and upper quartiles in practically all categories. Also in almost all cases, apartment entrance fees are higher in facilities in the suburbs or with 200 apartments or more. According to data in the "Profile of Participants" section, a large number of facilities indicated that either limited or no coverage was provided for nursing care in their fee structure.

EXHIBIT II-9
Apartment Entrance Fees—By Age, Location and Size

	Studio			One-Bedroom		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Principally Retirement Center						
All Facilities	$19,000	$28,000	$37,500	$32,950	$45,000	$56,000
Age:						
Built Pre-1975	17,375	22,302	32,598	30,000	37,500	52,620
Built 1975 & Later	24,158	32,625	43,100	37,900	48,900	60,000
Location:						
Urban	17,038	24,000	33,585	28,638	40,500	54,540
Suburban	22,452	32,250	42,963	37,435	49,392	65,739
Size:						
Under 200 Apartments	15,388	20,000	32,625	28,125	37,950	48,975
200 Apartments or More	23,250	32,250	40,056	36,580	50,925	60,000
Oriented Toward Nursing Care						
All Facilities	$ 7,000	$21,100	$32,725	$15,000	$30,000	$40,140
Age:						
Built Pre-1975	6,250	21,725	35,219	10,000	27,000	40,186
Built 1975 & Later	7,500	19,450	25,250	28,500	33,000	46,650
Location:						
Urban	3,500	16,950	25,000	7,500	23,750	35,700
Suburan	10,000	22,000	38,894	18,250	31,000	46,455
Size:						
Under 200 Apartments	5,250	17,000	27,125	16,625	30,000	40,140
200 Apartments or More	20,200	35,000	39,900	33,850	44,103	58,702

*All amounts are medians.
**Insufficient data.

Two-Bedroom			Three-Bedroom			Second Person Additional*	
Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	One Bedroom	Two Bedroom
$46,260	$58,500	$78,250	$58,683	$72,000	$85,000	$4,000	$4,500
39,023	55,000	77,500	37,925	57,942	78,750	6,985	8,359
51,250	70,117	85,675	51,750	73,500	93,749	3,000	4,000
43,200	58,500	72,750	**	71,100	**	4,500	**
50,688	69,117	86,485	59,341	72,000	87,500	4,000	5,750
38,625	54,750	72,463	40,550	60,000	81,750	4,000	4,000
50,213	70,233	83,125	58,683	75,000	99,999	6,485	8,359
$28,425	$50,100	$63,263	$65,000	$68,200	$77,400	$5,000	$5,000
20,000	50,000	63,351	68,200	72,800	77,400	5,000	7,500
50,000	53,000	61,850	**	65,000	**	5,000	5,000
10,000	37,000	61,850	**	**	**	4,000	7,500
41,000	51,600	74,078	**	68,200	**	6,000	7,500
31,750	51,500	63,263	65,000	71,200	77,400	5,000	5,000
10,000	50,200	74,604	**	68,200	**	**	**

Monthly apartment fees

New in this year's study is information on monthly fees for three-bedroom apartments. Exhibit II-10 shows monthly apartment fees for various size units by location, age of facility and size. It is difficult to determine specifics about the variations in monthly apartment fees since facilities differ in the services, such as food, housekeeping and personal care, that they include in this fee.

EXHIBIT II-10
Monthly Apartment Fees By Selected Criteria

	Studio			One-Bedroom		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Principally Retirement Center						
All Facilities	$475	$578	$725	$554	$739	$ 910
Location:						
Urban	450	593	725	554	731	912
Suburban	490	570	617	512	700	816
Age:						
Built Pre-1975	361	584	736	506	741	919
Built 1975 & Later	494	570	716	560	730	891
Size:						
Under 200 Apartments	445	570	722	554	741	905
200 Apartments of More	493	580	733	553	729	915
Oriented Toward Nursing Care						
All Facilities	$494	$654	$856	$513	$644	$ 944
Location:						
Urban	525	669	835	564	762	989
Suburban	478	644	864	536	700	1,017
Age:						
Built Pre-1975	444	590	815	465	642	944
Built 1975 & Later	565	654	780	512	799	1,002
Size:						
Under 200 Apartments	482	592	657	513	644	914
200 Apartments or More	344	425	890	415	655	1,527

*All amounts are medians.
**Insufficient data.

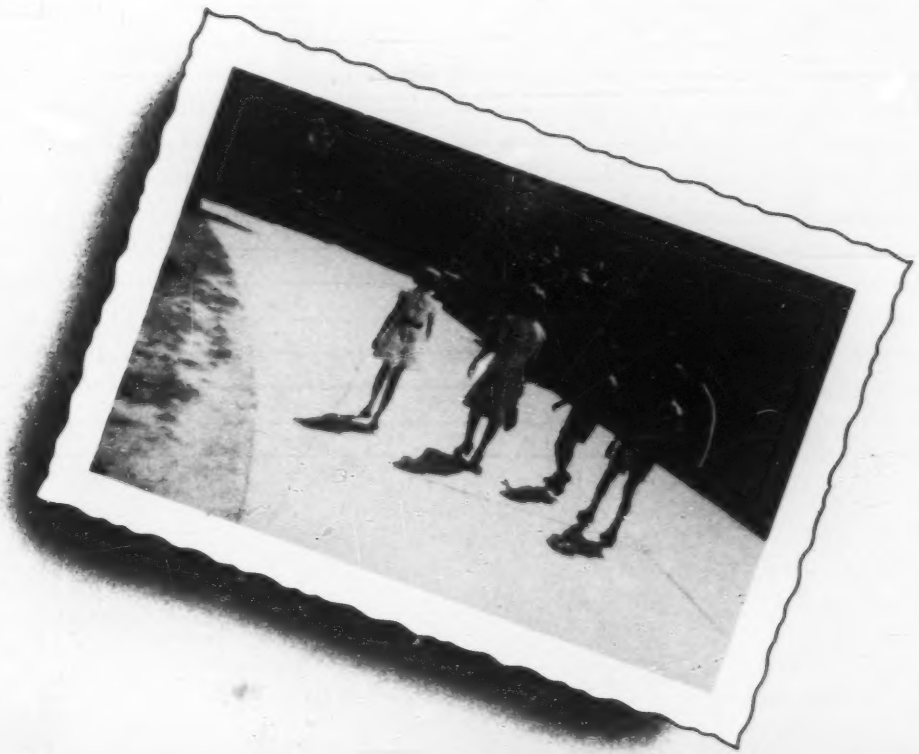
One Person						Second Person Additional*	
Two-Bedroom			Three-Bedroom			One Bedroom	Two Bedrooms
Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Median	Median
$667	$849	$1,114	$711	$1,092	$1,342	$321	$345
630	795	1,045	686	822	1,618	309	316
690	854	1,041	938	1,276	1,342	350	371
639	818	1,184	739	872	,386	310	320
724	901	1,050	938	1,277	1,342	340	350
593	808	993	813	923	1,314	311	324
677	901	1,201	718	1,280	1,833	360	360
$617	$805	$1,020	$ **	$ 835	$ **	$324	$329
560	825	925	**	928	**	302	313
702	815	1,259	**	**	**	320	332
610	788	982	**	835	**	324	335
670	925	1,140	**	**	**	315	332
610	766	983	**	835	**	302	324
551	803	1,902	**	**	**	656	800

Nursing center daily rates

Exhibit II-11 presents the daily rates for private and semiprivate rooms for skilled and intermediate care. Little difference is noted between the rental and the two varieties of entrance fee retirement centers.

EXHIBIT II-11
Nursing Center Daily Rates

	Private Room			Semiprivate Room		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Principally Retirement Center						
Skilled	$66	$76	$111	$55	$63	$77
Intermediate	65	70	96	53	61	66
Oriented Toward Nursing Care						
Skilled	$65	$75	$ 88	$58	$65	$74
Intermediate	51	60	68	45	52	58



Rate increases

As mentioned in Chapter 1, the 5 percent rate increase at rental facilities is consistent with facilities charging entrance fees. Annual increases have held at 5 percent over the past three years. The rate increases may be influenced by such factors as the cost of providing services and increased competition. (See Exhibit II-12.)

EXHIBIT II-12
Apartment and Nursing Center Percentage Rate Increases*

	Percentage Increase in Apartment Rates	Percentage Increase in Nursing Care Rates
Principally Retirement Center		
1985	5.0%	6.0%
1984	5.0	6.0
1983	5.5	7.5
Oriented Toward Nursing Care		
1985	5.0%	5.0%
1984	5.0	5.0
1983	5.0	7.0

*All amounts are medians.

PART II: EXPENSE

Payroll information

Salaries are similar in facilities catagorized as principally retirement centers and those oriented toward nursing care, as shown in Exhibit II-13. As might be expected, salaries for executive directors and assistant executive directors are slightly higher at larger facilities. Exhibit II-14 compares median salaries and staffing levels for 1983, 1984 and 1985. In most cases, salaries have remained stable, reflecting the modest inflationary trends during this period. Staffing levels also do not show any substantial change.

Exhibit II-15 displays the variances in dietary, housekeeping and maintenance payroll costs for the two types of entrance fee facilities. Dietary payroll per meal is significantly higher in principally retirement centers than for those oriented toward nursing care, while housekeeping and maintenance payroll per square foot is higher in facilities oriented toward nursing care. This higher housekeeping and maintenance cost indicates an increased level of care, although probably only for those in nursing center beds. Since participating facilities provided data reflecting *total* payroll costs (for both nursing center and retirement center care), the added expense of providing care to patients in nursing beds raises nursing care oriented facilities' overall housekeeping and maintenance costs per square foot.

EXHIBIT II-13
Payroll Information—Salaries and Number of Employees

	All Facilities		
	25%	50%	75%
Principally Retirement Center			
Salary per Person for:			
Executive Director or Administrator	$34,085	$40,000	$50,000
Assistant Executive Director	21,900	27,500	33,000
Administrative (Excluding Nursing)	11,858	14,400	17,301
Nursing Center Administrator	21,146	27,000	32,375
Administrative (Nursing)	13,458	16,250	19,903
Nursing Staff	10,324	12,027	14,804
Personal Care Staff	10,393	11,633	13,568
Dietary	7,828	9,185	10,532
Housekeeping & Laundry	8,627	10,030	11,818
Maintenance	10,878	15,080	17,067
Social Activities	12,082	13,889	15,502
Vehicle Drivers	7,125	8,708	12,402
Security	7,984	10,067	13,303
Oriented Toward Nursing Care			
Salary per Person for:			
Executive Director or Administrator	$35,643	$40,000	$45,000
Assistant Executive Director	28,166	32,500	35,777
Administrative (Excluding Nursing)	11,858	13,702	18,813
Nursing Center Administrator	23,448	25,000	28,684
Administrative (Nursing)	13,228	18,494	23,400
Nursing Staff	10,607	11,901	12,981
Personal Care Staff	7,733	11,235	16,879
Dietary	9,470	10,542	11,719
Housekeeping & Laundry	9,169	9,625	11,267
Maintenance	12,099	13,763	16,075
Social Activities	11,084	14,076	17,301
Vehicle Drivers	7,094	10,167	12,649
Security	9,713	11,252	14,342

*All amounts are medians.
**Insufficient data.

Size*		Location*		Number of Employees All Facilities—by Percentiles		
Under 200 Apartments	200 Apartments or More	Urban	Suburban Rural	25%	50%	75%
$39,000	$41,500	$40,000	$41,500	1.0	1.0	1.0
26,500	29,000	27,000	26,750	1.0	1.0	1.0
13,000	15,833	14,471	14,500	4.0	6.8	8.0
23,000	31,000	27,000	28,060	1.0	1.0	1.0
18,169	15,940	16,424	15,940	1.0	2.0	4.0
11,867	12,096	12,514	11,676	16.5	27.0	41.0
11,633	11,594	11,977	11,633	7.6	8.0	10.0
9,451	9,116	9,568	9,185	15.3	26.0	58.1
10,933	10,011	11,031	9,966	7.6	11.5	18.9
15,429	15,055	16,000	12,774	3.0	5.0	8.9
12,842	14,923	14,000	13,789	1.0	2.0	2.5
12,990	8,653	8,653	9,152	1.0	1.0	2.0
8,000	12,377	10,067	10,556	1.5	3.0	4.9
$41,200	$45,675	$38,007	$42,000	1.0	1.0	1.0
32,500	33,756	34,268	32,882	1.0	1.0	1.0
13,212	**	18,023	13,676	2.5	5.5	10.0
24,825	**	31,830	25,845	1.0	1.0	1.0
17,957	20,009	19,707	20,009	1.0	2.0	5.9
12,193	11,646	12,492	11,614	39.6	56.3	89.5
11,858	9,355	11,377	9,355	3.3	6.0	13.6
10,274	10,681	10,973	10,654	13.6	20.3	32.5
9,625	9,335	10,410	9,937	10.1	14.5	24.8
14,105	13,763	16,001	13,763	4.6	5.5	7.8
14,076	15,932	17,203	14,151	2.0	3.0	4.0
10,167	**	10,167	9,360	0.5	1.0	1.9
10,740	**	11,615	10,051	2.0	3.8	5.5

Various expenses

As in Exhibit I-13 in Chapter I, the wide range in raw food costs shown in Exhibit II-16 to an extent reflects the different socioeconomic segments of the elderly market being served. Variations in utility costs reflect such factors as geographic location and types of building, as well as the efficiency level of facilities' heating, ventilation and air-conditioning equipment.

EXHIBIT II-14
Payroll Information—Salaries and Number;* Three-Year Comparison

	Salaries All Facilities			Number of Employees Facilities		
	1985	1984	1983	1985	1984	1983
Principally Retirement Center						
Salary per Person for:						
Executive Director or Administrator	$40,000	$40,000	$37,908	1.0	1.0	1.0
Assistant Executive Director	27,500	28,000	22,800	1.0	1.0	1.0
Administrative (Excluding Nursing)	14,400	13,590	13,080	6.8	5.5	5.3
Nursing Center Administrator	27,000	24,665	24,410	1.0	1.0	1.0
Administrative (Nursing)	16,250	14,487	15,611	2.0	2.0	2.0
Nursing Staff	12,027	11,242	10,718	27.0	30.0	36.0
Personal Care Staff	11,633	11,371	**	6.0	6.0	**
Dietary	9,185	9,156	8,803	26.0	23.0	35.5
Housekeeping & Laundry	10,050	9,511	9,289	11.5	11.5	11.0
Maintenance	15,080	13,851	13,772	5.0	5.0	6.3
Social Activities	13,889	13,367	**	2.0	2.0	**
Vehicle Drivers	8,708	8,708	**	1.0	1.0	**
Security	10,067	7,810	9,130	3.0	2.5	3.5
Oriented Toward Nursing Care						
Salary per Person for:						
Executive Director or Administrator	$40,000	$35,000	$34,500	1.0	1.0	1.0
Assistant Executive Director	32,500	28,476	24,150	1.0	1.0	1.0
Administrative (Excluding Nursing)	13,702	13,835	12,335	5.5	5.5	5.3
Nursing Center Administrator	25,000	24,025	22,101	1.0	1.0	1.0
Administrative (Nursing)	18,494	17,350	14,676	2.0	2.0	3.3
Nursing Staff	11,901	11,784	9,526	56.3	49.5	48.0
Personal Care Staff	11,235	10,861	**	6.0	6.0	**
Dietary	10,542	9,999	8,854	20.3	22.5	20.0
Housekeeping & Laundry	9,625	9,791	8,433	14.5	13.5	13.8
Maintenance	13,763	12,417	12,271	5.5	5.0	5.0
Social Activities	14,076	12,707	**	3.0	2.0	**
Vehicle Drivers	10,167	9,508	**	1.0	1.0	**
Security	11,252	10,950	10,379	3.8	3.0	3.0

*All amounts are medians.
**Not reported.

EXHIBIT II-15
Payroll Employee Statistics

	Principally Retirement Center			Oriented Toward Nursing Care		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Dietary Department						
Dietary Payroll Per Meal	$1.19	$1.52	$1.96	$ .95	$1.09	$1.45
Housekeeping and Maintenance Department						
Housekeeping Payroll Per Square Foot of Entire Facility	.39	.59	.83	.86	1.11	1.79
Maintenance Payroll Per Square Foot of Entire Facility	.26	.33	.51	.49	.74	.92
Square Feet Per Housekeeper	13,820	17,625	23,900	5,953	8,881	12,256
Square Feet Per Maintenance Employee	28,823	38,696	54,239	16,101	21,405	31,780

EXHIBIT II-16
Various Expense Statistics—1985

	Total			Size*	
	Lower Quartile	Median	Upper Quartile	Under 200 Apartments	200 Apts or More
Principally Retirement Center					
Raw Food Cost Per Meal	$1.14	$1.28	$1.56	$1.20	$1.38
Utilities Expense Per Square Foot	.98	1.14	1.35	1.10	1.15
Cost of Food Management Service Per Meal	.10	.22	.35	.21	.24
Oriented Toward Nursing Care					
Raw Food Cost Per Meal	$ .88	$1.10	$1.37	$1.10	$1.48
Utilities Expense Per Square Foot	.99	1.38	1.84	1.37	1.17
Cost of Food Management Service Per Meal	.09	.13	.26	.14	.10

*All amounts are medians.

Reserve funds

The questionnaire asked senior living facilities to state the amount of funds they were holding in reserves for purposes other than debt service or mortgage repayment. We calculated the reserves per resident by dividing the amount provided by the number of apartment residents in that facility. Exhibit II-17 provides this information.

Reserve funds reported by this year's respondents are lower than last year. This may reflect several shifts that have been occurring in the industry. Facilities that do not guarantee nursing care coverage are likely to have lower reserves to cover the costs of providing for residents' health care needs. In addition, movement toward forms of financing other than bonds, as well as the use of somewhat less restrictive reserve covenants in both bond and other debt financing vehicles further explains why facilities are holding less in their reserve funds.

EXHIBIT II-17
Reserve Funds

	Principally Retirement Center			Oriented Toward Nursing Care		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Total Amount of All Reserves	$290,000	$779,832	$2,609,421	$703,086	$1,469,195	$4,842,690
Total Reserves Per Resident	$ 1,253	$ 3,693	$ 10,184	$ 2,757	$ 16,723	$ 46,175

Financial assistance in principally retirement centers

All but four of the principally retirement center facilities included in the study are nonprofit entities and agree to provide services to their residents even if they are unable to pay. Some communities build up special funds contributed by residents to cover such contingencies, and others use current operating funds. In Exhibit II-18, a median number of residents who currently require financial assistance is 3.3 percent . This is close to last year's median of 3 percent. However, the estimated percentage of people who may eventually require assistance dipped to approximately 5 percent this year from 8 percent in the 1985 study.

For the first time this year we are presenting information on estimated annual costs for financial assistance. The responses indicate that the annual costs per resident will remain relatively constant.

EXHIBIT II-18
Financial Assistance for Principally Retirement Centers

Percentage of Residents Who Currently Require Financial Assistance	
– All Facilities:	
Lower Quartile	1.6%
Median	3.3
Upper Quartile	7.8
Percentage of Current Residents Who Will Eventually Require Assistance	
Lower Quartile	2.7%
Median	4.9
Upper Quartile	11.1

SECTION D: MARKETING CHARACTERISTICS

Marketing techniques

For the first time, this year's study includes information on marketing techniques. As shown in Exhibits II-19 and II-20, both types of facilities charging entrance fees rely heavily on the print media and direct mail. Community outreach plays a somewhat more prominent role for principally retirement centers than for those oriented toward nursing care. Of particular interest is that television advertising appears to be used more frequently by principally retirement centers than by any other type of facility featured in our study. However, for all types of facilities tne electronic media is utilized less frequently than other forms of marketing.

EXHIBIT II-19
Marketing Techniques
Oriented Toward Nursing Care

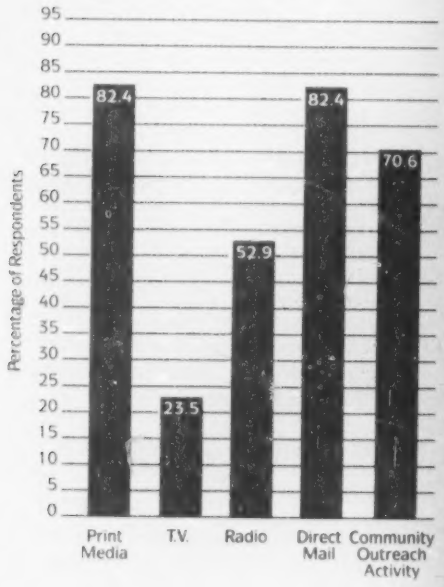
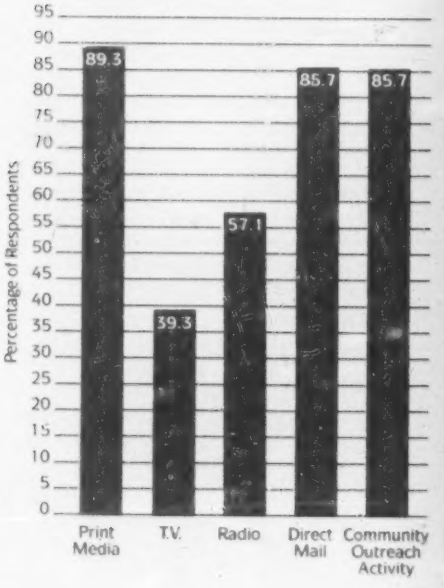


EXHIBIT II-20
Marketing Techniques
Principally Retirement Center



Primary market area and proximity to children

This year the findings on primary market area for the principally retirement center category closely parallel last year's results. Exhibit II-21 shows that in both cases approximately 80 percent of the responding facilities indicated that their primary market area was defined by a 25-mile radius, with 45 percent selecting a 15-mile radius or less. This year, however, a far greater percentage of responding facilities oriented toward nursing care indicated a primary market area of 15-miles or less. Comparatively little difference in resident's proximity to children between principally retirement centers and those oriented toward nursing care is reflected by survey respondents.

EXHIBIT II-21
Primary Market Area and Proximity to Children

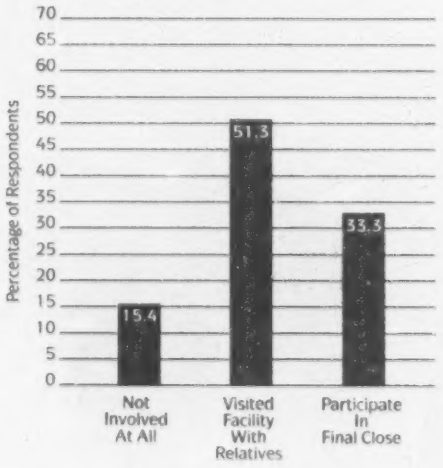
	Principally Retirement Center	Oriented Toward Nursing Care
Percentage of Communities Which Estimate Their Primary Market Area to be:		
Less Than 5 Mile Radius	13%	7%
5 to 10 Mile Radius	21	40
11 to 15 Mile Radius	11	13
16 to 20 Mile Radius	13	3
21 to 25 Mile Radius	21	17
Over 25 Mile Radius	21	20
Percentage of Residents Who Have Children Estimated to Live Within 30 Minutes Driving Time*:		
Urban Communities	43%	60%
Suburban or Rural Communities	48	50

*All amounts are medians.

Involvement of children

A question asked frequently by those planning retirement communities is "How involved are children in the decision of a parent to move to a retirement community?" This year our study includes information on this issue (Exhibits II-22 and II-23). For principally retirement centers, children clearly play a role, as demonstrated by their accompanying the parent on a visit; however, it is the prospective resident who makes the final decision (as indicated by the percentage of children who participate in the final close). As might be expected, facilities oriented toward nursing care show a higher degree of involvement of children in the final close, due probably to the comparative frailty of the people entering this type of facility. What is surprising in the responses from this latter group of facilities is the lower percentage indicating visits by children.

EXHIBIT II-22
Involvement of Children
in Resident's Decision to Move
Oriented Toward Nursing Care



Preconstruction sales results and fill periods

The data in Exhibit II-24 reflects preconstruction sales levels of 50 to 60 percent. A variety of factors contribute to these findings, including requirements established by underwriters and lenders as well as state regulatory requirements governing projects charging entrance fees, which in a number of states specify preconstruction sales conditions.

Waiting lists

Exhibit II-25 illustrates the demand for larger apartment units in principally retirement facilities. The waiting lists for larger units are shorter in newer facilities, probably because newer facilities throughout the country are being designed with a greater number of one- and two-bedroom units. The generally longer waiting lists in older facilities may be an indication of the strength of a community's reputation and draw after many years of successful operations.

EXHIBIT II-23
Involvement of Children in Resident's Decision to Move Principally Retirement Center

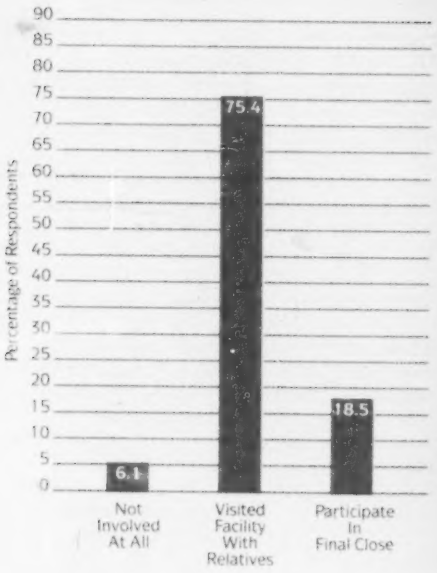


EXHIBIT II-24
Marketing Costs, Preconstruction Sales Results and Fill-up Time For Communities Built 1977 and Later*

	Principally Retirement Center	Oriented Toward Nursing Care
Marketing Cost Per Unit		
Percentage of First Phase Unit Sales Achieved Before Construction Started	50.0%	60.0%
Percentage of Apartment Units Filled During:		
1st Six Months	64.5%	60.0%
2nd Six Months	20.0	15.0
3rd Six Months	11.5	8.0
4th Six Months	11.0	7.0
Number of Months to Achieve 95% Occupancy	15.0	12.0

*All amounts are medians.

EXHIBIT II-25
Waiting List for Principally Retirement Centers*

	Built Pre-1975	Built 1975 and Later
Number of Months on Facility Waiting List:		
Studio/Room	12	6
One-Bedroom	18	9
Two Bedroom	33	9

*All amounts are medians.

CHAPTER III
GENERAL INFORMATION

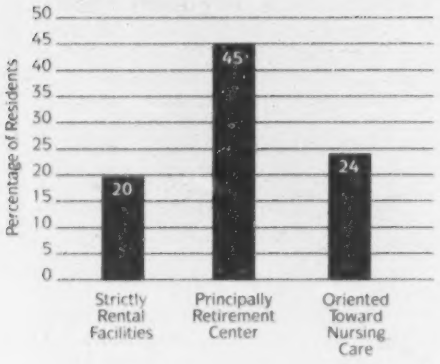
Car ownership by residents

This year, for the first time, we are including information on transportation. As the elderly become more frail, their ability to drive diminishes, placing greater reliance on others for transportation. In response to this need, many communities incorporate scheduled transportation into the package of services covered by monthly fees. So to some degree, means of transportation indicates the level of independence of senior citizens living in a facility. In examining Exhibit III-1 and the graph on scheduled transportation (Exhibit III-2), an interesting pattern emerges. Assuming this reasoning is correct, principally retirement centers appear to be oriented toward the most independent resident. The surprisingly small percentage of residents in rental facilities who maintain an automobile may be another indication that residents in these facilities have a comparatively lower economic status.

Scheduled transportation

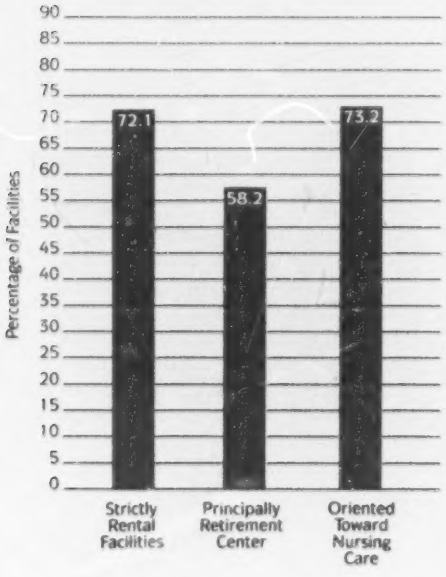
As shown in Exhibit III-2, a majority of senior living facilities provide free scheduled transportation in response to senior citizen's diminishing ability to drive. It is not surprising that rental facilities and entrance fee facilities oriented toward nursing care provide free transportation.

EXHIBIT III-1
Percentage of Residents Maintaining Automobiles*



*All amounts are medians.

EXHIBIT III-2
Percentage of Facilities Providing Free Scheduled Transportation



Screening of new residents for ability to pay

As Exhibit III-3 indicates, a significant majority of facilities screen potential residents for financial capability. As expected, the practice of screening applicants is more prevalent at entrance fee facilities.

Financial assistance

According to Exhibit III-4, rental senior living facilities appear less likely to provide financial assistance as a part of their residential agreements than do entrance fee facilities. This probably reflects the predominance of nonprofit ownership status of entrance fee facilities: 96 percent of entrance fee participants are nonprofit, whereas 53 percent of rental facility respondents are owned by for-profit entities. (See headings "Reserve funds" and "Financial assistance in principally retirement facilities" in Section C of Chapters I and II for further explanation.)

EXHIBIT III-3
Percentage of Facilities that Screen New Residents for Financial Capability

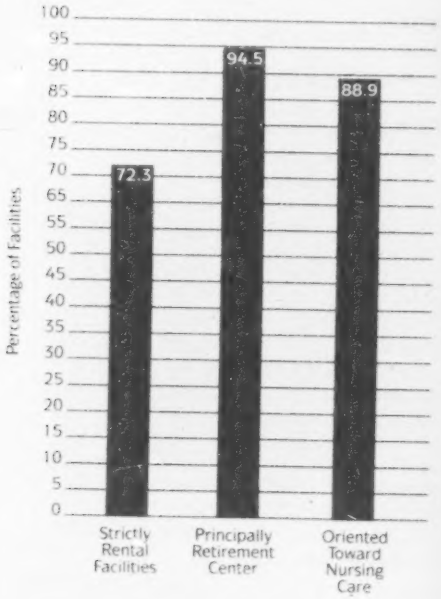
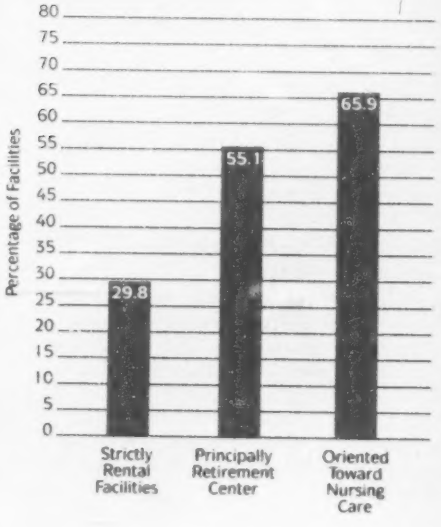


EXHIBIT III-4
Percentage of Facilities Where Resident Agreements Provide for Financial Assistance



Glossary of terms

ACLF
Adult Congregate Living Facility, also known as congregate care facility.

Adverse selection
Defined by insurers as impaired risk through self-selection, it is a process whereby a nonrepresentative (worse than average) segment of the universe selects the option offered. In the context of a CCRC, the fragile elderly who choose a CCRC tend to live longer than many of their peers (either because of community imposed physical requirements at entrance or because the CCRC may not appeal to potential residents who believe they will not live long enough to benefit from the entrance fee). Thus, the average mortality rate for CCRC residents generally exceeds the rates reflected in the mortality tables for the overall population.

Assisted living facilities
Facilities that are generally focused on serving those individuals in the middle stages of dependency. An assisted living facility allows individuals to remain independent while receiving enough assistance to maintain health and comfort. Assistance is provided in bathing, dressing, diet and self-administered medication. Also known as personal care, domiciliary care and home for adults.

Certificate of need (CON)
The regulatory approval necessary to add beds or change services. Typically reviewed by HSA and approved by the state department of welfare.

Continuing care retirement community (CCRC)
A community for the elderly characterized by a range of physical facilities including apartments, personal care units and nursing facilities (or access to nursing facilities). Above and beyond the physical surroundings, a CCRC is characterized by the supportive services offered to permit the elderly residents to live as independently as possible.

Diagnostic (diagnosis) related group
Grouping of patients based upon the particular diagnosis or disease to measure resources consumed by a particular patient. Patient classification may also consider secondary diagnosis, surgical procedures or age.

Earned entrance fees
The entrance fees, when received by a facility, represent a liability. This liability is taken into income or *earned* over the expected period of service (the life of the residents).

Endowment fee
An entrance fee. Typically, an entrance fee with very restricted refund provisions.

Entrance fee
A one-time fee paid on entrance to help offset the future cost of care. Refundability provisions, if any, vary widely between communities.

Fiscal intermediary
An organization that acts as intermediary between the hospital and a third-party payor. It receives billings from the hospital and makes payments for covered services on behalf of the payor, which reimburses it.

501(c)(3)
Section of the Internal Revenue Code under which most CCRCs receive tax-exempt status.

FF&E
Furniture, fixtures and equipment.

Fragile elderly
Persons age 75 and older.

Health systems agency (HSA)
The regional planning agencies charged with the review and approval process of certificates of need.

Home health care
Direct nursing care rendered in the home/apartment instead of in a nursing home.

HUD
The United States Department of Housing and Urban Development.

Intermediate care
Level of care that provides supportive, restorative and preventive health services in conjunction with a socially oriented program for patients. Services include room, board, personal care and continuous nursing service under the direction of a professional nurse.

Investor-owned
A hospital owned by a person or a corporation. Operation of this type is usually intended to return a monetary gain to the investors.

Lifecare
Initially, a system of retirement living whereby a resident turned over all assets in return for a guarantee of care—residential and medical—for the remainder of his or her life. Now modified by setting fixed entrance fees based on unit selected and number of occupants per room and the charging of a monthly service fee to augment the entrance fee income.

Market area
Surrounding geographic area from which the CCRC draws most of its residents. Often split into a "Primary Market Area" (PMA) and a "Secondary Market Area."

Medicare (Title XVIII)
A third-party reimbursement program, administered by the Health Care Financing Administration, that underwrites the medical costs of persons 65 and over and some qualified persons under 65.

Mortality tables
Tables published by the U.S. government based on age, sex and race, which deal with the life expectancy and morbidity of all members of the population.

Not-for-profit corporation
A corporation where no stockholder or trustee shares in the profits or losses, if any, of the enterprise.

Nursing homes
Generally a wide range of institutions that provide various levels of nursing care, personal care and maintenance for persons unable to care for themselves and who may have health problems that range from minimal to very serious. Nursing homes include skilled nursing facilities, intermediate care facilities and extended care facilities, but no boarding homes.

Nursing services
Services pertaining to the curative, rehabilitative and preventive aspects of nursing care that are planned, performed, supervised and/or directed by a registered professional nurse.

Occupancy fees
See entrance fee.

Payment in lieu of taxes
In many states, 501(c)(3) organizations are exempt from real estate taxes. However, it is not uncommon for the community to be assessed a "payment in lieu of tax," which is equal to or less than the real estate tax.

Payor
A person or organization that pays the hospital for services rendered to patients. This can be the patient and/or third parties, such as Medicare, Medicaid, Blue Cross or other private insurance plans.

Personal care
See assisted living facility.

Plant
Physical properties used for institutional purposes (e.g., land, building improvements, equipment). The term does not include real estate or properties of restricted or unrestricted funds not used for health facility operations.

Proprietary hospital
Same as investor-owned.

Provider
Any health care institution that has been licensed to provide services to patients or an individual, such as physician, whose primary activity is providing health care.

Refundable entrance fees
An entrance fee that is ultimately returned to the resident or the resident's estate—either in full or the majority of it.

REIT
Real Estate Investment Trust.

Residency and care agreement
The contractual agreement between the resident and the CCRC, which spells out the rights and obligations of both parties.

Retirement centers
See senior living facilities.

Retrospective reimbursement
A method of payment to health care providers by a third-party payor such as Medicare, Medicaid or Blue Cross and Blue Shield. Reimbursement is made to providers of services at the actual or defined costs for services.

Senior living facilities
Living arrangements wherein older adults commit to residing for the remainder of their lives. The sites are equipped to provide a broad range of care, including apartments for independent living, accommodations with personal care, and nursing home care.

Skilled nursing care
Level of care in which patient requires convalescent and/or restorative services at a level less intensive than acute care.

Skilled nursing facility (SNF)
The highest licensed level of care in a nursing home.

Third-party payor
An agency, such as Blue Cross or the Medicare program, that contracts with health care providers and patients to pay for the care of covered patients.

Unearned entrance fees
The entrance fee liability net of cumulative amortization.

Vesting
The contractual right of the operator to retain all or a portion of the entrance fees upon death or exit of resident.

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